



CORPORATE PROFILE

Hecla Mining Company is a leading domestic producer of newly mined silver and gold, and a major supplier of premium ball clay and volcanic scoria. Headquartered in Coeur d'Alene, Idaho, the Company has operations and projects under development in twelve states and four Canadian provinces.

◀ *Nestled in the mountains of Northeast Washington State, Hecla's Republic Unit increased its gold production from 40,000 ounces in 1986 to more than 80,000 ounces in 1988. Inset: Pure gold bullion.*

RESULTS IN BRIEF

HECLA MINING COMPANY AND SUBSIDIARIES

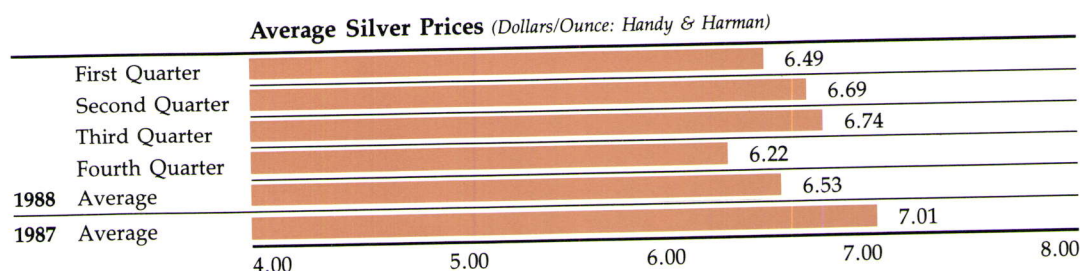
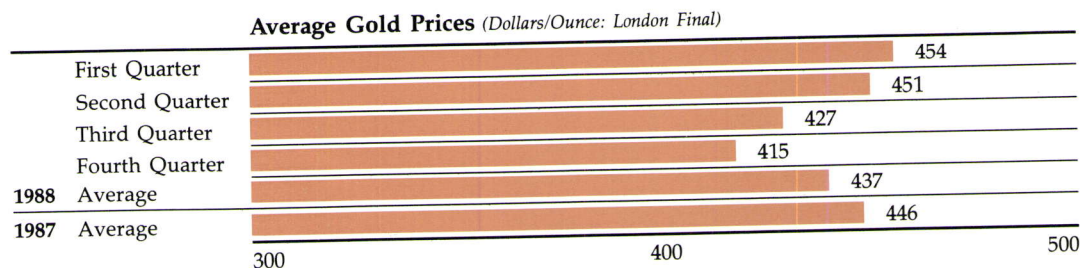
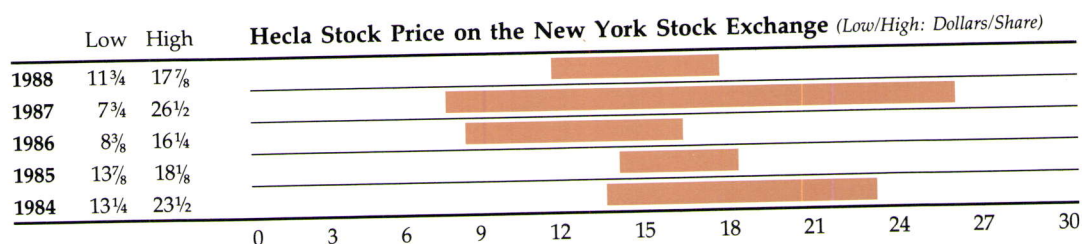
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(dollars in thousands except per-share amounts)

	1988	1987	1986
Total revenue	\$105,356	\$88,716	\$62,057
Net income (loss)	15,129	10,336	(21,232)
Per share	.56 ⁽¹⁾	.38	(.79)
Cash dividend per share	\$.05	\$.05	\$.05
Year-end			
Common shares issued	27,044,812	27,040,832	26,993,738
Shareholders of record	16,766	17,795	19,749
Employees	737	795	653
Sales of products			
Gold operations	\$ 45,202	\$34,896	\$14,970
Silver operations	32,566	29,878	25,032
Industrial minerals	24,535	22,372	20,933
Total sales	\$102,303	\$87,146	\$60,935
Gross profit (loss)			
Gold operations	\$ 28,876	\$24,796	\$ 8,115
Silver operations	(3,129)	(972)	(10,122)
Industrial minerals	4,079	3,353	3,844
Total gross profit	\$ 29,826	\$27,177	\$ 1,837

(1) Includes \$0.05 per share decrease for change in accounting for income taxes.



TO OUR SHAREHOLDERS

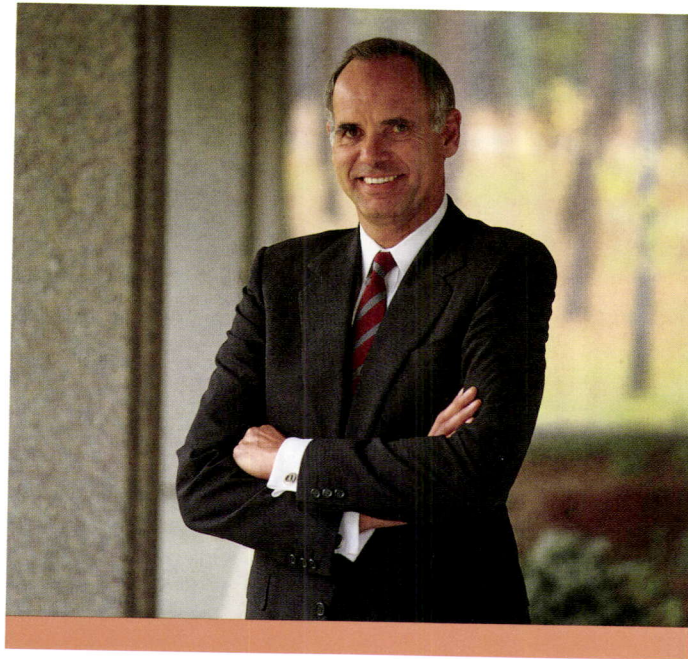
1988 was a good year for our Company. We made substantial progress in our plans to expand gold production, grow in industrial minerals, and enter the specialty metals business. However, one disappointment was the earnings from our silver operations.

Corporate earnings for the year were \$15.1 million, or 56¢ a share, compared to 1987 net income of \$10.3 million, or 38¢ a share. Revenue of \$105.4 million in 1988 was up 19% from the \$88.7 million reported in 1987. 1988 earnings were favorably impacted by a net adjustment of \$5 million, or 19¢ a share, due to reassessment of the Company's income tax liability and the application of the liability method of accounting for income taxes.

Precious metals prices, which had recovered early in 1987, gradually declined in 1988. Gold averaged \$437 per ounce in 1988 compared to \$446 per ounce in 1987, and silver dropped from \$7.01 per ounce in 1987 to an average of \$6.53 per ounce in 1988. Lead and zinc prices enjoyed a gradual upward trend throughout the year and prices for industrial minerals also improved slightly.

For the fourth consecutive year, gold was the largest contributor to corporate earnings. Combined gold production from all operations in 1988 totaled 103,000 ounces compared to 72,000 ounces in 1987. Our Republic Unit produced 80,000 ounces of gold in 1988 at an average cash cost of \$94 per ounce, ranking it among the lowest-cost producers in the United States. At Yellow Pine, we produced 21,000 ounces of gold. Unfortunately, the agreement with our contract processor did not work out, and it has been cancelled. We are assessing our options for future operations at Yellow Pine.

I am pleased with the improved sales revenue and earnings from industrial minerals in 1988. An aggressive sales strategy intended to expand market share in both ball clay and scoria resulted in a \$2.2 million increase in sales revenue, and an overall 22% increase in gross profit from industrial minerals. As you know, we have been working to expand our industrial minerals operations, and on August 1, we signed a Letter of Intent to acquire all the assets of Cyprus Minerals' clay division. These assets included kaolin mines and plants at Sandersville and Deepstep, Georgia, and Aiken, South Carolina, as well as a ball clay mine and processing plant near



Gleason, Tennessee. However, our plans were stalled by the Justice Department on the basis of anti-competitive issues related to the ball clay industry, which forced us to end the agreement and exclude the ball clay facilities. A revised agreement was eventually finalized to purchase the three kaolin operations for approximately \$11.2 million. Acquisition of the Cyprus kaolin properties fits very well into our existing industrial minerals operations, providing marketing efficiencies

that will benefit both Hecla and its customers.

In specialty metals, we exercised our option to acquire the Apex germanium-gallium mine near St. George, Utah, from Musto Explorations Limited of Vancouver, B.C., for \$5.5 million. Musto will retain a 15% net profit interest. We expect to begin production in late 1989 after certain changes are made to the metallurgical plant that will improve metal recoveries. Work continued during 1988 on feasibility studies and pilot plant research to determine the economic viability of bringing the Thor Lake beryllium deposit in the Northwest Territories into commercial production. We remain optimistic about this project and plan to make a decision by midyear on how to proceed.

As I said at the beginning of this letter, I am disappointed in our 1988 earnings from silver operations. Obviously, falling silver prices did not help, but the fact remains that we did not meet our production expectations at either the Lucky Friday or Escalante Units. Hecla's average cash cost to produce silver in 1988 was \$5.50 per ounce, but after adding depreciation charges and corporate general and administrative costs, we suffered a substantial loss from silver operations. We are working hard to correct that situation. At the Lucky Friday mine, mechanized mining has been implemented in five underhand stopes, with a sixth scheduled to begin production in the third quarter. Lower production costs have been achieved under the new method, as had been projected, and we expect better performance at the Lucky Friday in 1989 as full production is reached. The rockburst problem which the new mining method was designed to overcome has been alleviated but, so far, not eliminated. At the Escalante silver mine in Southwest Utah, increased dewatering costs and declining grade made the property a

marginal operation. Efforts to find more ore were not successful and underground operations were shut down on December 30, 1988. Milling of a large stockpile of crushed ore on surface will continue through late 1990. However, the biggest contribution toward improvement in silver operations in 1989 will be production from our 28% interest in the

Greens Creek silver-gold-zinc-lead mine near Juneau, Alaska. Scheduled to begin production in February 1989, Greens Creek will be the largest and lowest-cost silver producer in the Nation. Hecla's share of Greens Creek 1989 production is expected to total nearly 2,000,000 ounces of silver, 15,000 ounces of gold, 5,700 tons of zinc and 2,500 tons of lead. Of course, nothing will help our silver operations as much as an increase in the price of silver.

In 1988, we spent \$7.5 million on exploration in the United States and Canada. I am very encouraged by exploration results at Republic where we added ore reserves in the Golden Promise area of the mine and identified what we think may be an entire new ore zone about 3,000 feet northwest of existing operations. We plan to spend \$1 million in 1989 to further explore this exciting new area. Our exploration efforts for silver were not as successful, and we did not add to our ore reserves at existing silver operations.

Hecla expanded its presence in Canada in 1988 by opening a new office in Toronto and by hiring Mr. William Allan, an experienced Canadian mining executive, to direct Hecla Mining Company of Canada Ltd. He and his staff will be responsible for the Thor Lake beryllium project, the Mooseland, Nova Scotia, gold project, and Hecla's interest in the Sulphurets gold-silver project in British Columbia, as well as other exploration and joint venture activities. On January 13, 1989, Hecla signed a formal Letter of Intent with Agnico-Eagle Mines Limited of Toronto, Ontario, to form a joint exploration company to search for precious metals within specifically identified areas of North America. I'm excited about opportunities for Hecla in Canada, and I'm pleased that the formal structure needed to support increased activities there is now in place.

Financially, Hecla ended the year with a strong balance sheet and a healthy increase in the Company's asset base. Although notes payable to banks increased by \$7 million, we were able to fund in excess of \$19 million in capital expenditures from internally generated cash during 1988. At its November 4 quarterly meeting, the Board

Strong performance by gold and industrial minerals operations allowed Hecla to remain profitable in 1988, in spite of declining precious metals prices. Low silver prices and disappointing production made silver operations unprofitable, but better results are expected in 1989. Industrial minerals turned in a solid year of growth in sales and net income, providing welcome stability.

of Directors declared a cash dividend of 5¢ per share payable on December 16, 1988, to shareholders of record as of November 18, 1988.

At its meeting in May, the Board of Directors elected Ralph R. Noyes Vice President - Metal Mining, and W. Glen Zinn Vice President - Assistant to the Chairman. These promotions were in recognition of out-

standing performance and expanded responsibility. Paul A. Redmond was elected to the Company's Board of Directors on August 12, 1988. Mr. Redmond is Chairman of the Board and Chief Executive Officer of The Washington Water Power Company, based in Spokane, Washington. The Company will be well-served by the extensive business experience and understanding of the natural resource industry that Mr. Redmond brings to the Board.

1988 was a year of improved profitability and exceptional performance in our gold and industrial minerals operations. The improved results this year are especially gratifying because they were achieved in spite of lower precious metals prices. While we have some challenges to meet, we are reducing costs and I'm confident that 1989 will be a better year for our silver operations. We have some exciting opportunities ahead in all segments of our Company, and I'm looking forward to a promising year of growth in 1989.



Arthur Brown
Chairman, President and
Chief Executive Officer

Coeur d'Alene, Idaho
March 22, 1989

OPERATIONS REVIEW — PRECIOUS METALS

Outstanding performance at the Republic Unit and the addition of Yellow Pine resulted in a 43% increase in gold production in 1988. Hecla produced 103,000 ounces of gold in 1988, including 80,000 at Republic and 21,000 at Yellow Pine. Gold ore reserves at Republic increased in 1988, despite high levels of production.

Republic Unit. The Republic gold mine in North-east Washington State has become Hecla's flagship property, highlighting the importance of gold to the Company's operations. Republic produced 80,301 ounces of gold in 1988, an increase of 15% over 1987 production of 70,095 ounces.

The Republic mill processed 79,210 tons of ore, with the recovered grade of gold increasing to 1.01 ounces per ton, up from .97 ounce in 1987. The mine also produced 354,077 ounces of silver during the year, recovering nearly 4.5 ounces of silver per ton of ore milled.

Proven and probable ore reserves at Republic increased in 1988, despite high production levels during the year. As of December 31, 1988, Republic's proven and probable ore reserves totaled 527,000 tons averaging .86 ounce of gold per ton and 4.0 ounces of silver per ton, compared to 515,000 tons at .8 ounce of gold and 3.6 ounces of silver at year-end 1987.

1988 gold production at Republic was close to the maximum that can be processed using current hoisting and milling facilities. Consideration is being given to expanding the concentrating mill and increasing hoisting capacity at the site.

An outstanding safety record was achieved at the Republic Unit in 1988. Nearly two years passed without a lost-time accident at the mine, which is highly commendable for an underground hard rock mine.

Republic Unit	1988	1987	1986	1985	1984
Tons of ore milled	79,210	72,491	58,681	60,551	61,440
Gold recovered grade (ounces per ton)	1.01	.97	.68	.65	.37
Silver recovered grade (ounces per ton)	4.5	4.7	2.3	1.7	1.3
Metals produced					
Gold (ounces)	80,301	70,095	39,866	39,192	22,757
Silver (ounces)	354,077	341,272	134,412	101,521	80,967

Yellow Pine Unit. A gold pour on July 29, 1988, at the Yellow Pine Unit in central Idaho, marked the official opening of Hecla's first venture into heap leach gold mining. The first season

of operation produced 20,701 ounces of gold, about 4,300 ounces less than planned. The lower-than-expected production was due to a disagreement with the processor, which caused a six-week suspension of production in August and September. Less than three-quarters of the planned tonnage was actually

processed, but ore grade and gold recoveries were better than expected. A known mineral inventory of oxide ore reserves of 1.1 million tons at a grade of 0.078 ounce of gold per ton remains at the site. Hecla is studying several options for continuing production at Yellow Pine in the future.

The Company also owns a large sulfide gold deposit at Yellow Pine, estimated at between 15 and 20 million tons containing .1 ounce of gold per ton.

Yellow Pine Unit	1988
Tons of ore crushed	278,193
Gold recovered grade (ounces per ton)	.074
Silver recovered grade (ounces per ton)	.024
Metals produced	
Gold (ounces)	20,701
Silver (ounces)	6,802

Lucky Friday Unit. During 1988, the Lucky Friday mine continued its phased-in start-up under the new Lucky Friday Underhand Longwall mining method (LFUL). By year's end, five of the six planned stopes were in production, with the sixth scheduled to come on-line in the third quarter of 1989.

Lucky Friday Unit	1988	*1987	*1986	1985	1984
Tons of ore milled	120,200	45,165	82,041	276,817	257,315
Silver recovered grade (ounces per ton)	14.9	14.8	16.1	17.1	18.6
Lead recovered grade (percent)	10.5	10.1	13.3	12.6	12.2
Zinc recovered grade (percent)	1.9	2.2	1.5	1.4	1.3
Metals produced					
Silver (ounces)	1,786,716	667,442	1,324,182	4,740,971	4,795,758
Lead (tons)	12,675	4,548	10,890	34,789	31,336
Zinc (tons)	2,301	989	1,254	3,915	3,304
Copper (tons)	309	110	143	534	442
Gold (ounces)	778	261	611	2,429	2,740

*Operations at the Lucky Friday mine were suspended for a 14-month period during 1986 and 1987.

rich Golden Promise area of the mine.



▲ *Gold doré from Republic is processed into high purity gold bars at Johnson Matthey's Salt*

PRECIOUS METALS

Hecla produced 4.5 million ounces of silver in 1988, compared to 3.8 million ounces in 1987. At the Lucky Friday, the new mechanized mining method will be fully implemented in 1989, improving safety and lowering costs. The Escalante silver mine shut down underground operations on December 30, as known ore reserves were exhausted.

Lucky Friday. (cont.)

The Lucky Friday, a silver-lead mine near Mullan, Idaho, produced 1,786,716 ounces of silver in 1988, compared to 667,442 ounces in 1987. Ore milled at the mine also contains about 10.5% lead, making the base metal a valuable element of the Lucky Friday's production. In 1988, lead production nearly tripled to 12,700 tons, compared to 4,500 tons in 1987. However, 1987 production was substantially lower than normal because the mine was closed for nearly half the year, due to low silver and lead prices. Ore grade at the Lucky Friday has decreased since 1986 as mining operations moved deeper and certain high-grade stopes were mined out.

Implementation of the new LFUL system has helped limit sudden rock failure, called rockbursts, in the mile-deep workings of the mine. Without the new system, mining would be much more difficult due to unstable rock conditions far beneath the surface. The LFUL method utilizes mechanized equipment, a ramp system, and cemented sand fill to improve safety and reduce mining costs. LFUL has improved the situation, but rock failure continues to be a problem in the mine, and a rockburst during the fourth quarter caused a six-week closure in one LFUL stope.

1988 saw the first profit-sharing checks for Lucky Friday employees under a three-year agreement reached in 1987. The first checks were distributed to 140 qualified people on September 23, and a smaller payment was made in January 1989.

On December 31, 1988, proven and probable mineral reserves for the Lucky Friday totaled 598,000 tons at a grade of 15.4 ounces of silver per ton, 13% lead and 2.3% zinc. 120,000 tons of ore were mined during the year, and 79,000 tons were added to reserves, resulting in a decrease from 1988 reserves of 41,000 tons.

Escalante Unit. The Escalante silver mine in Southwest Utah shut down December 30, 1988, after the ore body was mined out and exploration efforts to discover more ore were unsuccessful.

The closure resulted in the permanent layoff of 48 mine employees. The Escalante produced 1,831,172 ounces of silver during 1988, a 19% decrease in production from 1987 as operations at the mine wound to a close. The concentrating mill at the Escalante Unit will remain in operation until late 1990, employing about 40 people and proc-

essing a 500,000-ton surface stockpile of ore accumulated over the past few years.

Escalante Unit	1988	1987	1986	1985	1984
Tons of ore milled	304,245	294,098	305,717	296,946	286,554
Silver recovered grade (ounces per ton)	6.0	7.7	7.4	8.2	7.8
Metals produced					
Silver (ounces)	1,831,172	2,252,942	2,274,924	2,438,978	2,235,781
Gold (ounces)	959	1,080	—	—	—

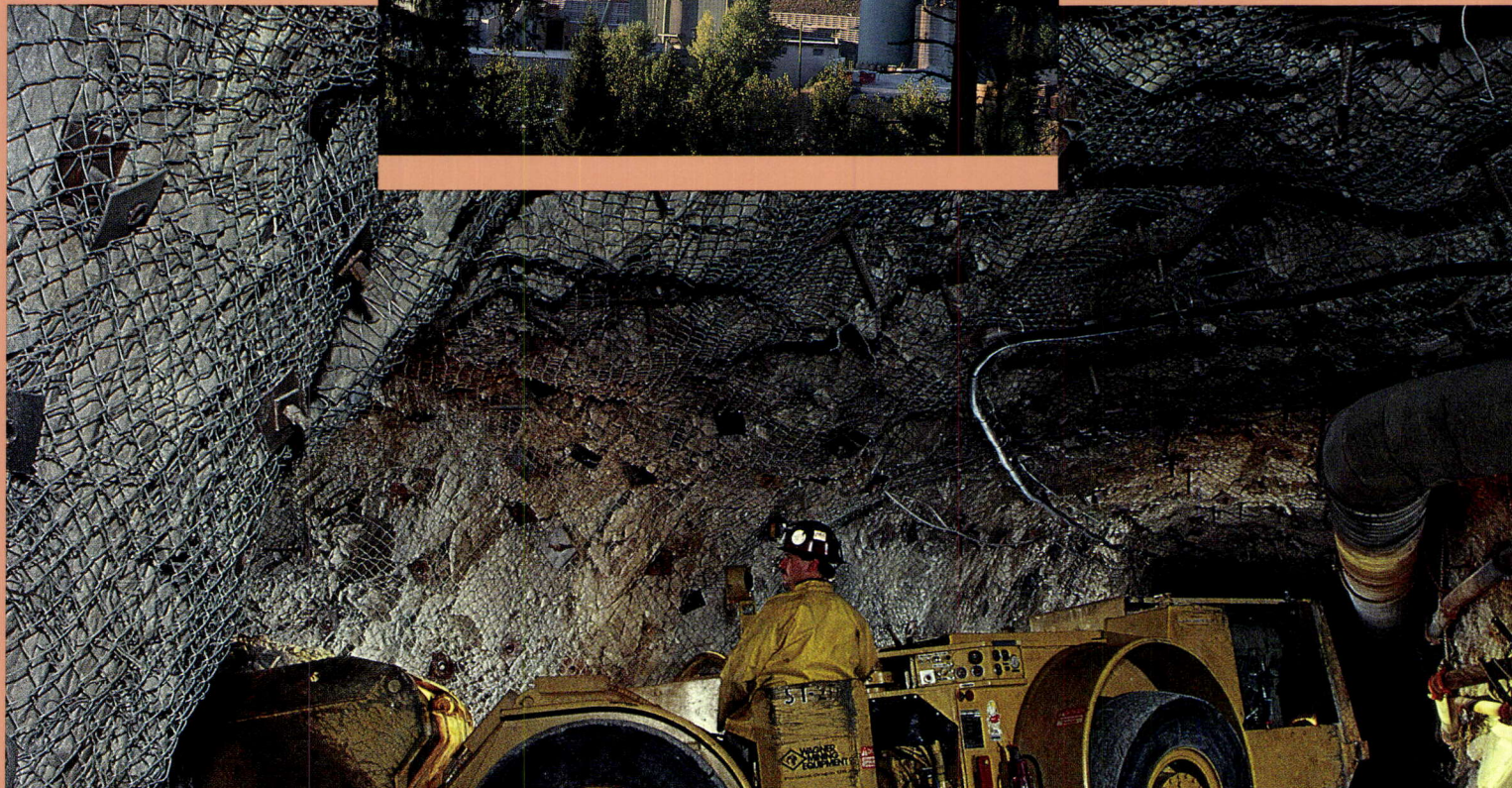
Galena Unit. Hecla holds a 12½% interest in the Galena Unit, owned by Callahan Mining Corporation and operated by ASARCO Incorporated. The mine operated smoothly in 1988, although ore grade for the year was down. The Galena produced 381,078 ounces of silver for Hecla in 1988.

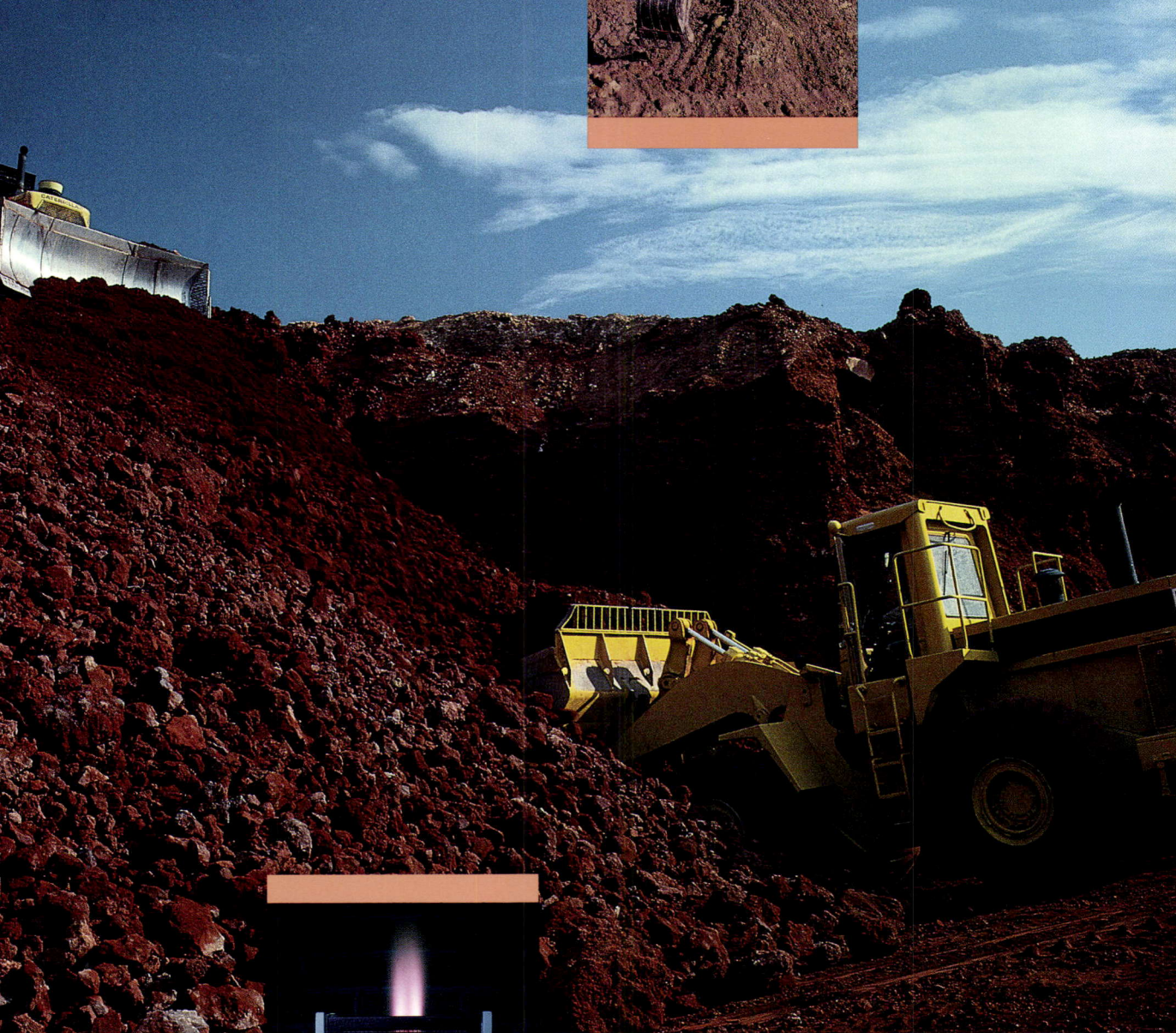
Galena Unit (Reflects Hecla's 12½% Share)	1988	1987	1986	1985	1984
Tons of ore milled	25,262	25,094	25,102	25,022	26,125
Silver recovered grade (ounces per ton)	15.1	16.4	19.9	20.5	20.1
Metals produced					
Silver (ounces)	381,078	411,005	499,715	512,941	524,302
Copper (tons)	125	121	141	154	172
Gold (ounces)	58	60	60	73	90

Coeur Unit. A 5% interest in the Coeur silver mine produced 105,781 ounces of silver for Hecla in 1988, down about 17,000 ounces from 1987. The mine operated at normal production levels all year but, like the Galena, the average ore grade decreased about an ounce per ton from the previous year.

Coeur Unit (Reflects Hecla's 5% Share)	1988	1987	1986	1985	1984
Tons of ore milled	7,219	7,728	7,731	7,561	7,123
Silver recovered grade (ounces per ton)	14.7	15.9	17.7	17.4	17.2
Metals produced					
Silver (ounces)	105,781	122,846	137,156	131,413	124,227
Copper (tons)	47	58	62	61	61
Gold (ounces)	16	20	17	16	15

► The Lucky Friday headframe along I-90 in North Idaho is a landmark in the Coeur d'Alene Mining District, marking the site of the 6,200-foot deep Silver Shaft.





◀ A commitment to exacting

▲ Colorado Aggregate

INDUSTRIAL MINERALS

Hecle's Industrial Minerals Division generated revenue of \$24.5 million in 1988, a 10% increase over 1987. Nearly 500,000 tons of ball clay and volcanic scoria were shipped to customers around the world. Early in 1989, Hecla added kaolin mines and plants in Georgia and South Carolina to its industrial minerals operations.

Kentucky-Tennessee Clay Company. K-T Clay, a wholly owned subsidiary of Hecla Mining Company, operates open-pit ball clay mines and processing plants in Kentucky, Tennessee, and Mississippi. Ball clay is a fine-grained, white-firing clay used principally as a bonding agent in sanitaryware, pottery, floor and wall tile, refractories, dinnerware, and electrical porcelain.

An increase in ball clay sales in most business segments led to improved sales revenue in 1988 for Kentucky-Tennessee Clay Company. Ball clay shipments were up 5%, due mainly to a concentrated sales and marketing effort initiated in 1987 and brought to fruition during 1988.

Introduction of a new product line, called "KTS-Classic," also enhanced sales revenue, accounting for a major portion of the Company's slurry business. KTS-Classic incorporates the unique properties inherent in Kentucky ball clays into slurry form for the first time, exhibiting superior plasticity, exceptional strength, and consistent quality. KTS-Classic was developed in response to customer needs for slurry clays to use in advanced technology ceramics manufacturing.

Capital improvements made in 1988 included the purchase of a new fleet of articulated hauling vehicles and a five-yard backhoe to improve the efficiency and lower the cost of overburden removal. The new vehicles replace the slower, less efficient scrapers that had been used for many years.

K-T Clay's central research and product development laboratory was upgraded during 1988 and its staff was increased. Emphasis on quality control and development of new products is the foundation of K-T Clay's business philosophy. A commitment to the highest standards of ball clay purity has earned K-T Clay a reputation of unexcelled quality within the industry.

In February 1989, Hecla purchased the kaolin assets of Cyprus Minerals Company for approximately \$11.2 million. Kaolin, along with ball clay, is one of the basic ingredients in the recipe for producing ceramic wares. Adding a line of kaolin products allows Hecla to improve service to its customers in the ceramics industry by offering two of the four major components needed to make ceramics. In addition to its ceramic applications, kaolin is a key ingredient in the manufacture of fiberglass, rubber, paint, and plastics.

The acquisition provides Hecla with kaolin plants and mines in Sandersville and Deepstep, Georgia, and in Aiken, South Carolina. The new operations will become part of Kentucky-Tennessee Clay Company. Production at the newly acquired properties is currently in excess of

200,000 tons of kaolin per year.

Colorado Aggregate Company. In 1988, Colorado Aggregate Company (CAC) moved its headquarters from Blanca, Colorado, to new facilities in Alamosa, Colorado, in order to consolidate administrative activities. At the new headquarters, an updated computer system was brought on-line to better control delivery schedules and customer accounts.

1988 saw a 7% increase in volcanic scoria shipments compared to 1987, partly due to a significant increase in briquette sales brought about by a successful marketing effort. Replacement briquette sales enjoyed a five-fold increase during 1988 due to an emphasis on direct marketing of bagged briquettes to retail outlets. CAC has been concentrating on offering products that fill a need for customers who already own gas-fired barbecue grills, such as replacement briquettes and grill cleaning kits which include new briquettes, a brush, and a can of cleaner. CAC continued to sell the lava rock briquettes to barbecue manufacturers for use with their product.

Colorado Aggregate Company is a wholly owned subsidiary of Hecla Mining Company, with volcanic scoria processing plants in Blanca and Mesita, Colorado, and mines in Colorado and New Mexico. Scoria is a clinker-like volcanic rock that ranges in color from pink to deep red to black. It is used primarily as decorative rock in landscaping and as briquettes in gas-fired barbecues.

Exploration efforts continue at both CAC and K-T Clay, with additional reserves added to both operations during 1988. ■

HECLA OF CANADA

Hecla Mining Company of Canada Ltd. has gold projects under development in Nova Scotia and British Columbia, and is evaluating the commercial feasibility of a beryllium deposit in the Northwest Territories. In 1989, Hecla will focus on expanded exploration, acquisition and new mine development, and will continue to aggressively seek joint venture opportunities in Canada.

Hecla Mining Company of Canada Ltd. (Hecla Canada), based in Toronto, Ontario, is a wholly owned subsidiary of Hecla Mining Company. Although incorporated in 1964, Hecla Canada was not active as a separate unit until 1988. During the year, a new president was appointed, the headquarters were relocated to Toronto from Vancouver,

B.C., and several major projects were placed under its direction. Hecla Canada is in the process of assembling a staff to expand Canadian exploration and pursue contacts with smaller or junior mining companies that may control ore bodies the Company can assist in developing.

Mooseland Project. In March 1988, Hecla entered into an agreement with Acadia Mineral Ventures Limited of Toronto, Ontario, in which Hecla will earn a 60% interest in the Mooseland, Nova Scotia, gold property by conducting a feasibility study and, if warranted, placing the property into production. Hecla has since signed an agreement with Biron Bay Resources Ltd. of Toronto to have Biron Bay contribute \$(C)9.5 million in funds for shaft sinking and exploration in return for a 25% share in the property. Hecla will provide \$(C)3 million of the exploration funds through the purchase of one million shares of Biron Bay at \$(C)3.00 per share, earning a 10% interest in Biron Bay. Hecla will continue to be the operator of the Mooseland property.

Surface drilling has indicated the potential for a substantial tonnage of economic grade gold ore. An underground exploration program designed to further define the mineralized zone and the grade of gold it contains is now under way. At the site, the headframe and surface buildings have been completed, and shaft sinking will be finished by the end of the third quarter of 1989. The feasibility study, consisting of the underground drilling program and pilot plant metallurgical testing, is expected to be completed by the end of 1989.

Granduc Mines Sulphurets Project. Hecla now owns an 18% net interest in the Sulphurets gold-silver property in British Columbia, by virtue of its 46% ownership of Granduc Mines Limited. In November, Granduc and its joint venture partner, Newhawk Gold Mines Ltd., announced updated geological reserves indicating 854,000 tons of mineralized

material at an average grade of .35 ounce of gold per ton and 22.9 ounces of silver per ton.

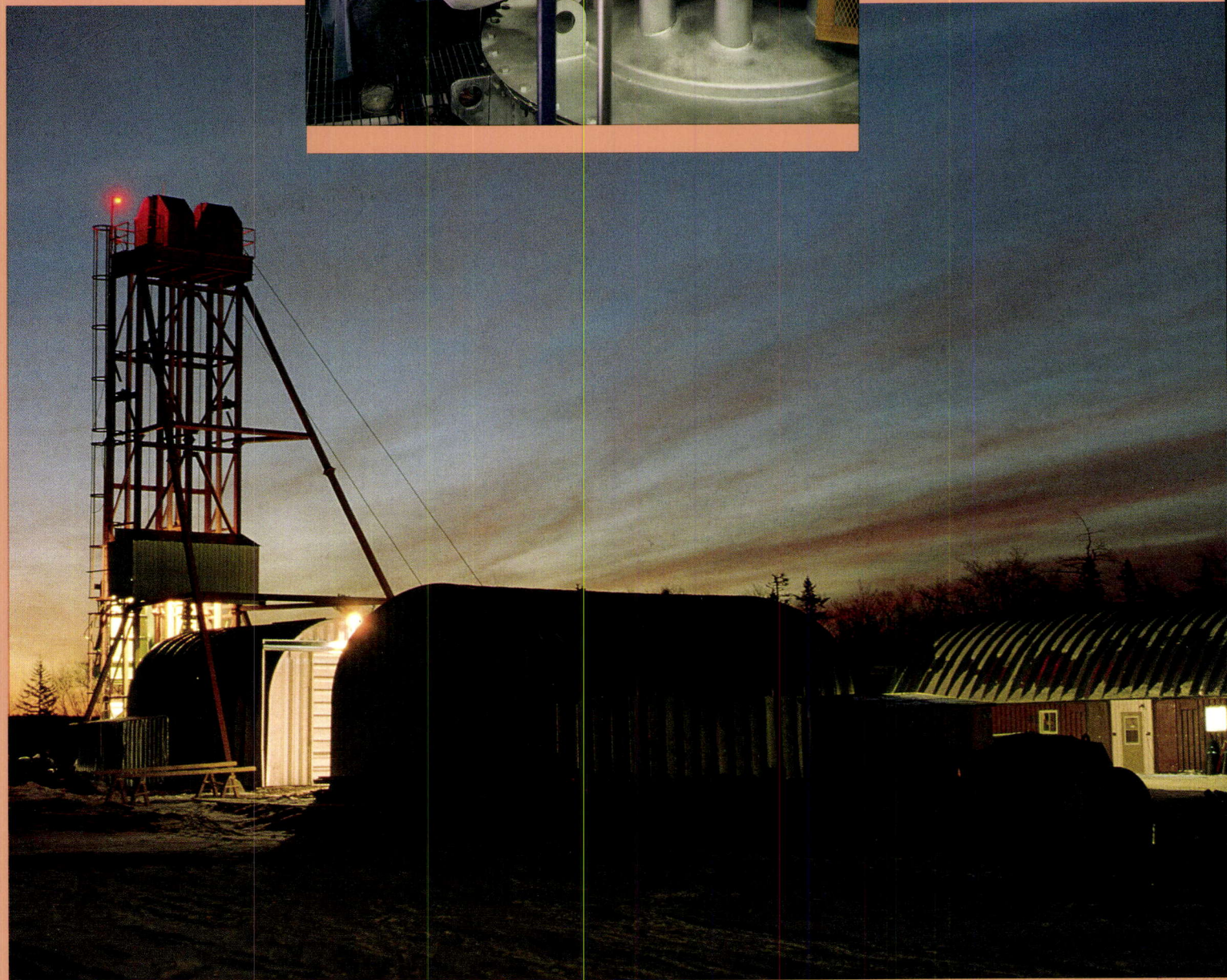
Since the project started in 1986, Granduc and Newhawk have spent \$(C)18 million on the property. A final feasibility study will be completed in mid-1989, and a decision on the commercial viability of the project should be made by midyear.

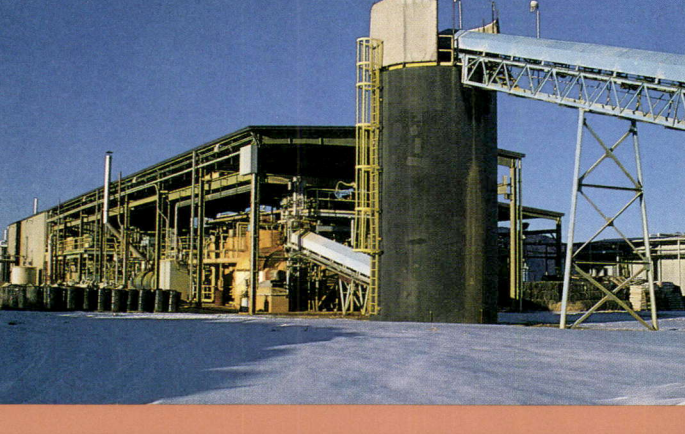
Thor Lake Joint Venture. In 1988, Hecla spent \$1.9 million on the Thor Lake beryllium project, focusing on process technology and marketing strategy. Another \$600,000 has been budgeted for the program in 1989 to complete the feasibility study. At Lakefield Research in Ontario, construction was completed on a \$750,000 pilot plant to convert phenacite concentrate to beryllium hydroxide. The pilot plant will duplicate the process of a full-size plant, providing detailed engineering and processing data needed for construction of commercial facilities. Another pilot plant program, also in Ontario, successfully simplified a metallurgical process for phenacite flotation, a necessary step in the production of beryllium hydroxide. The Initial Environmental Evaluation for the mine, an essential part of the permitting process, is 85% complete. Beryllium's high strength, light weight, and high conductivity make it ideal for many electronic, aerospace, and nuclear applications.

The Thor Lake property, located in the Northwest Territories, is owned by Highwood Resources Ltd. of Vancouver, B.C., Hecla's joint venture partner in the project. The deposit contains 1.8 million tons of .76% beryllium oxide reserves, and Hecla can acquire a 50% interest in the property by bringing it into commercial production. A decision on how to proceed with the Thor Lake beryllium project will be made in 1989.

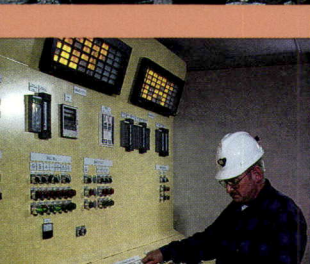
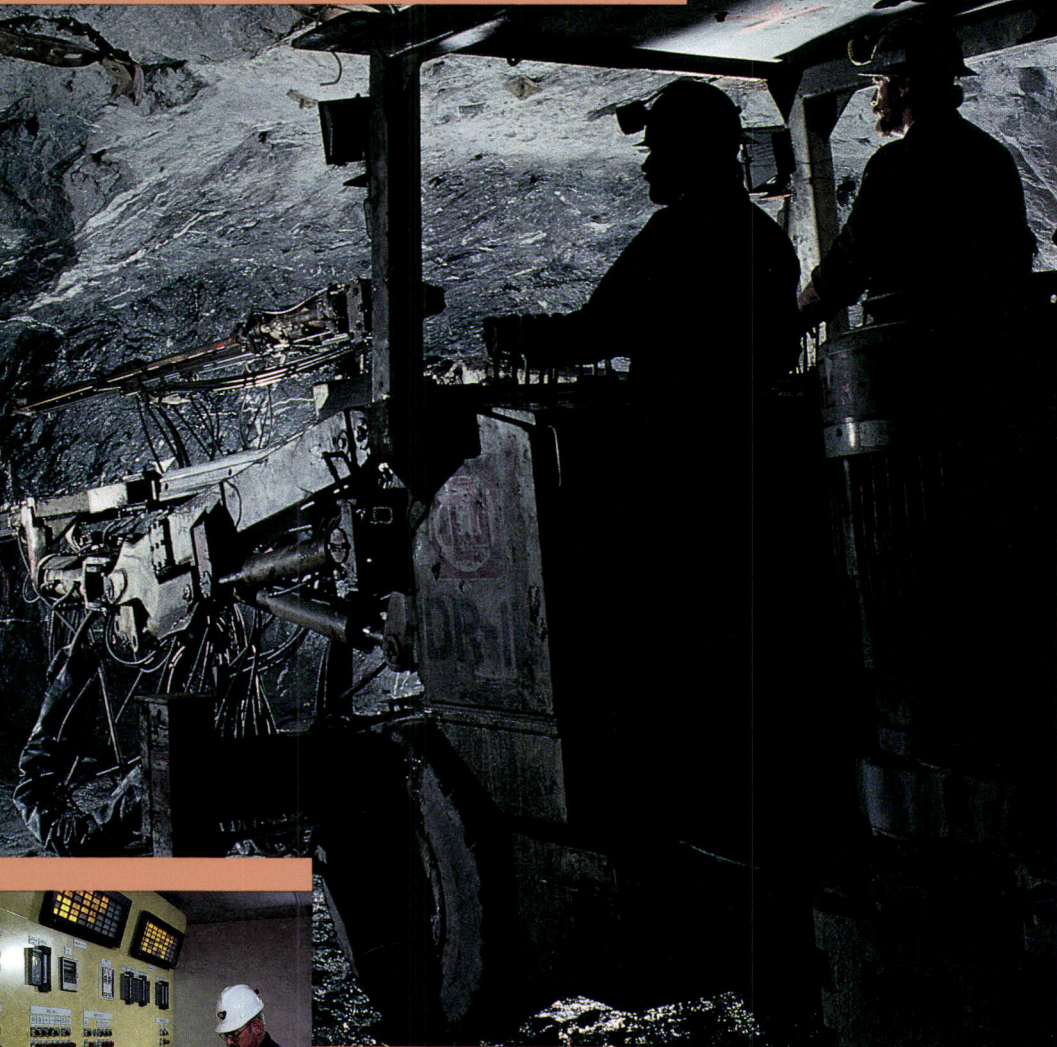
Other Interests. Hecla Canada is conducting several other exploration and joint venture programs, including gold exploration at sites in the Northwest Territories, Quebec and Ontario. Hecla Canada is also exploring a specialty metals deposit at the Lake Zone, just south of the Thor Lake beryllium deposit. ■

at Lakefield Research in Ontario is testing the process Hecla developed to treat phenacite concentrate from the Thor Lake beryllium deposit.





◀ The Apex leaching and solvent extraction plant processes the germanium-gallium-copper ore produced at the mine.



◀ Grinding, flotation, and

▲ Large, mobile drill rigs.

NEW MINES

Hecla entered the high technology specialty metals arena by exercising its option to purchase the Apex germanium-gallium mine in Southwest Utah. After two years of development, the massive Greens Creek silver-gold-zinc-lead mine on Admiralty Island in Alaska will begin production during the first quarter of 1989.

Greens Creek. The Greens Creek mine, 18 water miles southwest of Juneau, Alaska, is scheduled to begin production in February 1989. Hecla owns a 28% interest in this underground silver-gold-zinc-lead mine, and is in partnership in the joint venture with BP Minerals

America, CSX Oil and Gas Corporation, and Exalas Resources Corporation. The operating partner in the project is Greens Creek Mining Company, a wholly owned subsidiary of BP Minerals America. In 1989, Greens Creek is expected to provide Hecla with nearly 2 million ounces of silver, 15,000 ounces of gold, 5,700 tons of zinc and 2,500 tons of lead.

The mine is located on Admiralty Island, an environmentally sensitive area designated as a national monument. Large populations of bald eagle, bear, and Sitka black-tailed deer inhabit the island. Consequently, the amount of surface area used in the operation has been restricted substantially compared to other projects of this size in order to protect the pristine nature of the area. The entire project covers about 300 acres, and includes an ore concentrating mill, tailings impoundment, 13 miles of road, a shiploading facility, and ferry dock. In order to further minimize the environmental impact on the island, workers do not live on-site. Instead, they commute each day from Juneau on the specially built "Alaskan Dream" passenger ferry. When the mine is in full production, the work force will consist of about 210 employees, making it the largest private employer in Southeast Alaska.

Surface construction of the mill, mine buildings, and shiploading facility was completed in early 1989. Underground development, including heating, ventilation and electrical systems, will be finished during the first quarter.

The 15-foot by 18-foot main entrance to the mine can accommodate large ore hauling trucks and mobile drills. The access tunnel extends about 6,000 feet into the side of the mountain, 920 feet above sea level. Ore from the mine will be processed at a concentrating mill near the mine, and then hauled to a shiploading facility 9 miles away. Ocean-going ships will transport Greens Creek concentrate to smelters in Japan, Korea, and Europe for further refining to finished metal. The shiploading facility, located at Hawk Inlet, was constructed at the site of a former fish cannery built in the early 1900s.

At a planned production rate of 1,000 tons per day, the operation is expected to be one of the largest and lowest-cost silver producers in North America. Proven and probable reserves contain 3.5 million tons, averaging 24 ounces per ton of silver, .18 ounce per ton of gold, 9.7% zinc, and 3.9%

lead. There are an additional 2.3 million tons of inferred mineralization, graded at 24.5 ounces of silver per ton, .21 ounce of gold per ton, 15.2% zinc and 5.2% lead. Known reserves will provide ten years of production for the mine, with excellent potential for additional ore discovery.

Apex Unit. Hecla has exercised its option to purchase the Apex germanium-gallium-copper mine and processing plant located near St. George, Utah. The property was acquired for \$5.5 million through an asset purchase agreement with St. George Mining Corporation, a wholly owned subsidiary of Musto Exploration Ltd. of Vancouver, B.C. Musto will be entitled to a 15% defined net profits royalty after Hecla recoups all acquisition and pre-production costs.

Hecla elected to purchase the property after feasibility studies and metallurgical testing determined that mining and milling efficiencies could be substantially improved. The property is not in operation now, but will be returned to production in October 1989 and should be up to full capacity by June 1990, employing about 90 people.

Germanium and gallium are specialty metals, used in high-tech applications such as fiber-optics, light-emitting diodes and infrared lenses. ■

EXPLORATION

In 1988, Hecla spent \$7.5 million on exploration, focusing much of its search for gold and silver on areas adjacent to the Republic and Lucky Friday mines. A \$7.6 million exploration program is planned for 1989, with the Northwest United States as the target of increased gold and silver exploration in the coming year.

Republic. Hecla plans to concentrate much of its exploration effort in the Republic area in 1989, where the search for new vein structures in the Golden Promise area of the mine will continue. Newly discovered mineralization in the Golden Eagle area, about 3,000 feet northwest of the mine, prompted an increase in the exploration budget from \$800,000 in 1988 to more than \$1 million in 1989. The Golden Eagle discovery, unlike the Golden Promise vein system, appears to hold potential for a lower-grade, bulk-tonnage deposit. During 1988, Hecla signed two mineral leases with Ferry County to explore for gold deposits on land within the City of Republic. Although there are no plans to explore the property in the immediate future, drilling could be accomplished either from the surface or from underground drill stations. Proven and probable reserves at Republic increased to 527,000 tons averaging .86 ounce of gold per ton and 4.0 ounces of silver per ton in 1988.

Lucky Friday. At the Lucky Friday, diamond drilling to locate the downward extension of the Lindroos vein was unsuccessful, and the project has been terminated. However, results on the 5300 level of the mine and at the Snowstorm, Inspiration Lead, and Silver Mountain West projects were encouraging enough to continue exploration in those areas. For 1989, \$500,000 has been budgeted for exploration work at the Lucky Friday and surrounding areas.

Lucky Eagle Mining Company. In July 1988, Hecla announced that a letter of understanding had been signed with Agnico-Eagle Mines Limited of Toronto, Ontario, forming a joint exploration company to search for precious metals within specifically identified areas of North America. Early in 1989, a formal Letter of Intent to form Lucky Eagle Mines Limited was signed. Lucky Eagle will provide Hecla with expanded opportunities and capabilities for Canadian exploration, as well as additional funding for U.S. programs.

Consolidated Silver.

On November 1, 1988, Consolidated Silver Corporation leased the Consolidated Silver mine and mill to ASARCO Incorporated. If exploration efforts by ASARCO are successful and the property is brought into commercial production, 35% of the net

profits after recoupment of preproduction costs will go to the Consolidated Silver Corporation. Hecla is the majority owner of Consolidated Silver, with a 67.5% share.

Caladay. Also in November, Callahan Mining Corporation announced encouraging drill results at the Caladay silver project near Wallace, Idaho. The first phase of an exploration program, aimed at further defining the mineralized area, should be completed during the first quarter of 1989. Hecla owns a 12% interest in the Caladay project.

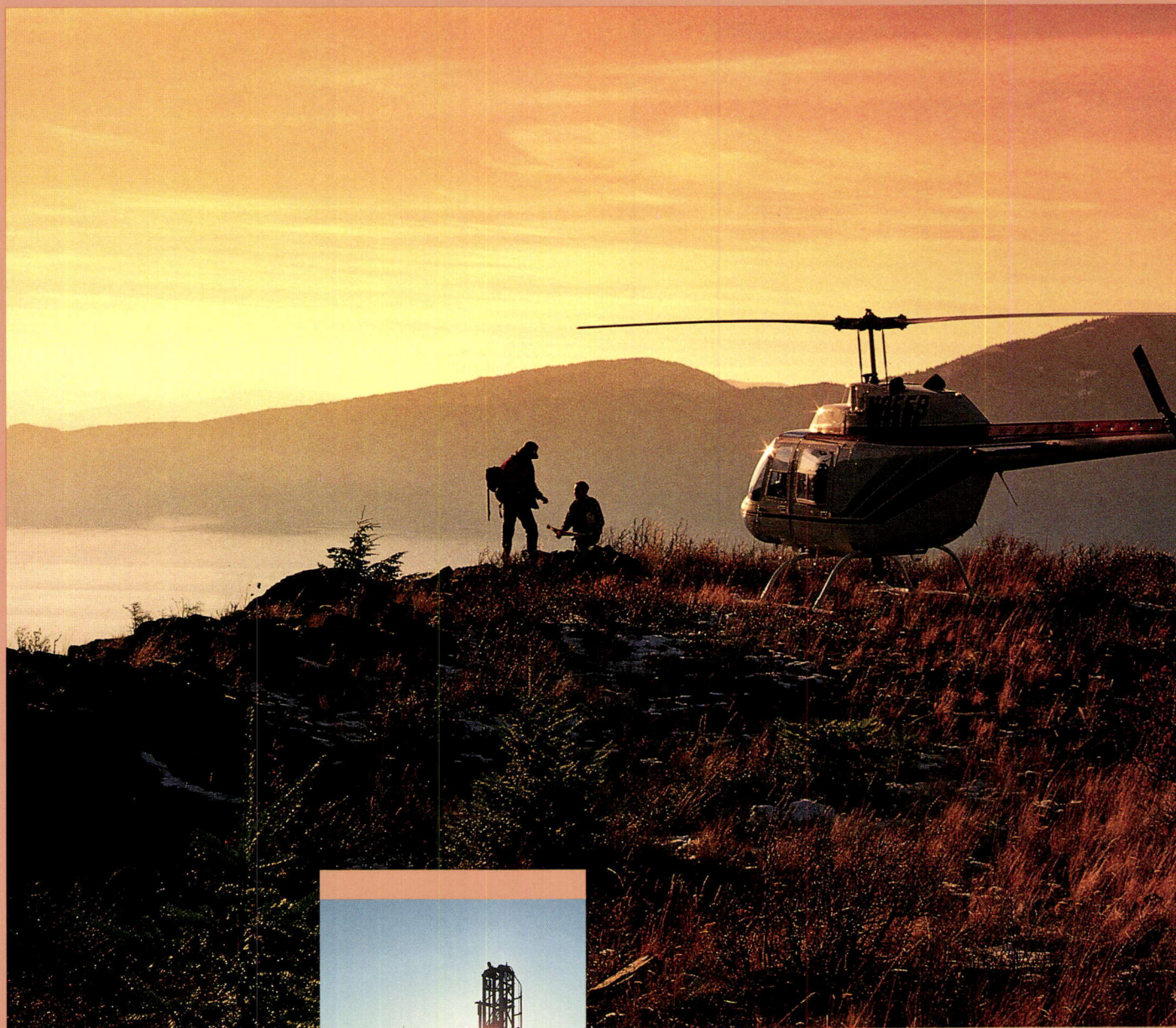
Baxter. A deep-drilling project at the Baxter gold property located on the Carlin trend in Nevada continued in 1988. Through exploration expenditures, Hecla is earning a 50% interest in the property from NERCO Minerals Company of Portland, Oregon. Results have been encouraging enough to put together a larger program for deeper drilling in 1989.

Industrial Minerals. In industrial minerals, Hecla is preparing to explore a promising kaolin deposit in the Minnesota River Valley near Fairfax, where 41 mineral leases covering 4,400 acres have been acquired. Hecla recently entered the kaolin business with the acquisition of plants and mines in Georgia and South Carolina from Cyprus Minerals, and will continue to search for more kaolin and ball clay deposits in the coming year.

Specialty Metals. High-tech materials such as beryllium, germanium, gallium, niobium, yttrium, indium, zirconium, and the rare earths will be the focus of Hecla's intensified search for specialty metals in 1989. An expanded staff of geologists will explore for these metals primarily in the U.S. and Canada. About 20% of the total 1989 exploration budget has been set aside for specialty metals programs, and a significant portion of the budget is earmarked for specialty metals over the next five years.

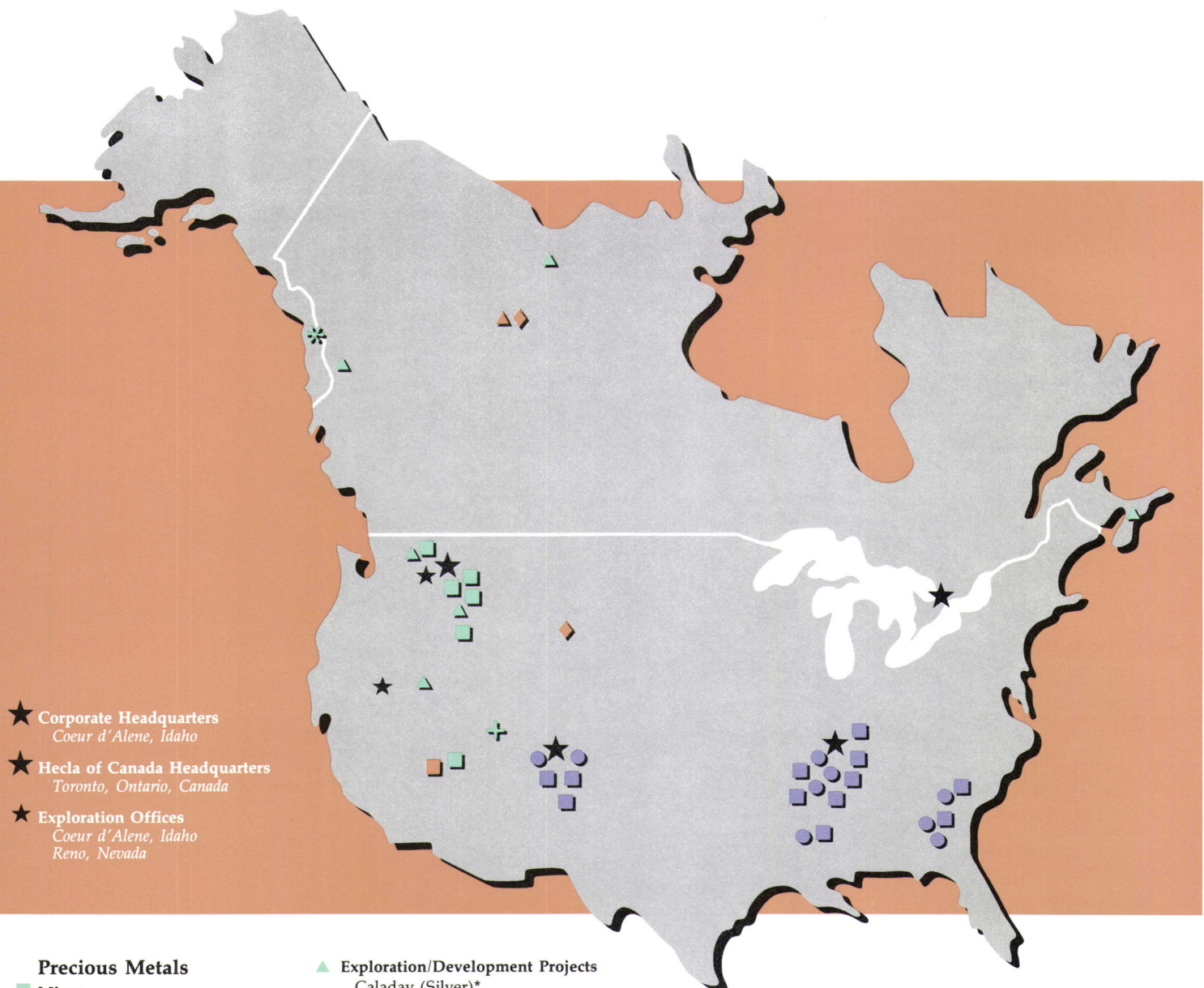
Denver Exploration Office. In 1988, in the interest of consolidation and efficiency, the Denver exploration office was closed. In the future, projects in that geographical area will be handled by the Coeur d'Alene and Reno offices. ■

▼ Hecla geologists search for gold, silver, industrial minerals, and specialty metals throughout North America.



◀ The most commonly used tool for mineral exploration is the diamond drill. This machine uses a hollow, diamond-encrusted

HECLA MINING COMPANY AND SUBSIDIARIES



- ★ **Corporate Headquarters**
Coeur d'Alene, Idaho
- ★ **Hecla of Canada Headquarters**
Toronto, Ontario, Canada
- ★ **Exploration Offices**
Coeur d'Alene, Idaho
Reno, Nevada

Precious Metals

- **Mines**
 - Republic (Gold, Silver)
Republic, Washington
 - Lucky Friday (Silver, Lead)
Mullan, Idaho
 - Escalante (Silver)
Cedar City, Utah
 - Galena (Silver)*
Wallace, Idaho
 - Coeur (Silver)*
Osburn, Idaho
 - Yellow Pine (Gold, Antimony)
Yellow Pine, Idaho

- * **Mines Under Development**
 - Greens Creek (Gold, Silver, Zinc, Lead)*
Admiralty Island, Alaska

- + **Mines on Care and Maintenance**
 - Lisbon Valley (Uranium)*
Moab, Utah

Exploration/Development Projects

- Caladay (Silver)*
Wallace, Idaho
- Sulphurets (Gold, Silver)*
Stewart, British Columbia
- Mooseland (Gold)*
Mooseland, Nova Scotia
- Republic Area (Gold, Silver)
Ferry County, Washington
- Baxter Property (Gold)*
Carlin Trend, Northeast Nevada
- McKenzie Property (Gold)*
Contwoyto Lake, Northwest Territories

Industrial Minerals

- ★ **Kentucky-Tennessee Clay Company Headquarters**
Mayfield, Kentucky

- **Plant/Mill Sites**
 - Mayfield, Kentucky
 - Crenshaw, Mississippi
 - Gleason, Tennessee
 - Whitlock, Tennessee
 - Sandersville, Georgia
 - Deepstep, Georgia
 - Aiken, South Carolina

- **Ball Clay Mines**
 - Carlisle County, Kentucky
 - Mayfield, Kentucky
 - Crenshaw, Mississippi
 - Bradford, Tennessee
 - Weakley County, Tennessee
 - Carroll County, Tennessee
 - Henry County, Tennessee

- **Kaolin Mines**
 - Washington County, Georgia
 - Aiken, South Carolina

- ★ **Colorado Aggregate Company Headquarters**
Alamosa, Colorado

- **Plant/Mill Sites**
 - Blanca, Colorado
 - Mesita, Colorado

- **Scoria Mines**
 - Mesita, Colorado
 - Antonito, Colorado
 - Taos County, New Mexico

Specialty Metals

- **Mines**
 - Apex (Germanium, Gallium, Copper)
St. George, Utah
- ▲ **Exploration/Development Projects**
 - Thor Lake (Beryllium, Yttrium)*
Yellowknife, Northwest Territories
- ◆ **Primary Exploration Properties**
 - Lake Zone (Rare Earths, Zirconium, Yttrium)*
Yellowknife, Northwest Territories
 - Warren Peaks (Rare Earth Elements)
Sundance, Wyoming

*Indicates partial ownership or joint-venture project

OPERATIONAL DATA

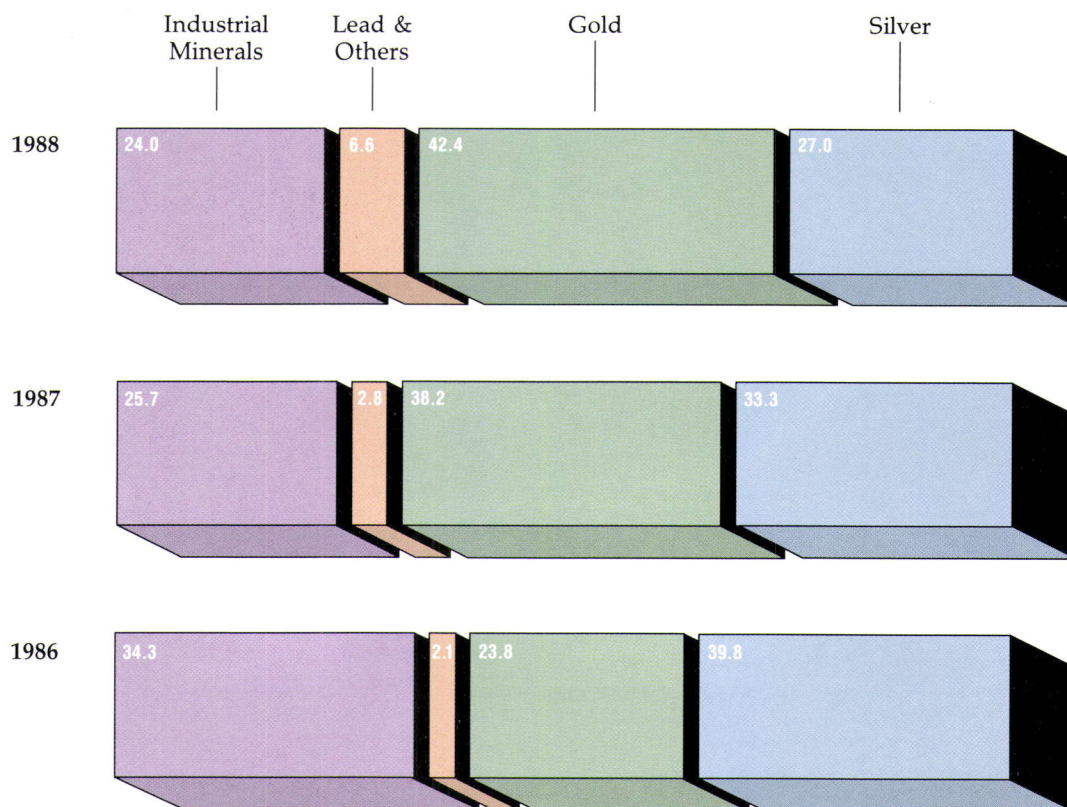
		1988	1987 ⁽¹⁾	1986 ⁽¹⁾	1985	1984
Combined Production From Operations	Gold (Ounces)	102,813	71,516	40,554	41,710	27,218
	Silver (Ounces)	4,465,626	3,795,507	4,370,389	7,925,824	8,445,412
	Lead (Tons)	12,675	4,548	10,890	34,789	31,522
	Zinc (Tons)	2,301	989	1,254	3,915	3,304
	Copper (Tons)	481	289	346	749	742
	Industrial Minerals (Tons Shipped)	499,706	474,382	453,324	455,128	458,515

⁽¹⁾ Commercial operations were suspended at the Lucky Friday mine on April 11, 1986, and resumed on June 1, 1987.

Proven and Probable Mineral Reserves (December 31)

Mine	Year	Total Tons	Hecla Share (Tons)	Silver (Oz./Ton)	Gold (Oz./Ton)	Lead (Percent)	Zinc (Percent)	Copper (Percent)
Republic Unit	1988	526,700	526,700	4.0	.9	—	—	—
	1987	514,800	514,800	3.6	.8	—	—	—
Yellow Pine Unit	1988	815,000	815,000	—	.09	—	—	—
	1987	815,000	815,000	—	.08	—	—	—
Lucky Friday Unit	1988	598,200	598,200	15.4	—	13.0	2.3	—
	1987	639,100	639,100	15.9	—	12.3	2.2	—
Escalante Unit	1988	—	—	—	—	—	—	—
	1987	586,600	586,600	7.9	—	—	—	—
Galena Unit	1988	1,239,400	154,925	16.4	—	2.0	—	.5
	1987	1,197,900	149,700	16.1	—	2.1	—	.5
Coeur Unit	1988	438,700	21,935	16.7	—	—	—	.7
	1987	495,900	24,800	16.6	—	—	—	.8
Greens Creek	1988	3,500,000	980,000	24.0	.18	3.9	9.7	—
	1987	3,500,000	980,000	24.0	.18	3.9	9.7	—

Total Sales by Product (By Percentage)



SELECTED FINANCIAL DATA

(in thousands except for per-share amounts)

Five-Year Selected Financial Data

Years Ended December 31	1988	1987	1986	1985	1984
Total Revenue	\$105,356	\$ 88,716	\$ 62,057	\$ 81,125	\$114,107
Income (loss) from continuing operations before extraordinary credit and cumulative effect of change in accounting principle	\$ 16,602	\$ 10,336	\$ (21,232)	\$ (8,918)	\$ 7,629
Income from discontinued operation	—	—	—	4,694	—
Extraordinary credit	—	—	—	—	3,617
Cumulative effect of change in accounting for supplies inventory	—	—	—	—	846
Cumulative effect of change in accounting for income taxes	(1,473)	—	—	—	—
Net income (loss)	\$ 15,129	\$ 10,336	\$ (21,232)	\$ (4,224)	\$ 12,092
Income (loss) per common share from continuing operations before extraordinary items	\$0.61	\$0.38	\$ (0.79)	\$ (0.33)	\$0.29
Net income (loss) per common share	\$0.56	\$0.38	\$ (0.79)	\$ (0.16)	\$0.45
Total assets	\$188,852	\$170,716	\$140,281	\$170,932	\$190,305
Long-term debt — Notes and contracts payable	\$ 17,332 ⁽¹⁾	\$ 10,399 ⁽¹⁾	\$ 516 ⁽²⁾	\$ 562 ⁽²⁾	\$ 546 ⁽²⁾
Dividends — Per common share	\$0.05	\$0.05	\$0.05	\$0.20	\$0.20
Common shares issued	27,044,812	27,040,832	26,993,738	26,993,738	26,986,699
Shareholders of record	16,766	17,795	19,749	20,708	21,037
Employees	737	795	653	945	1,055

⁽¹⁾ Includes \$332,000 and \$399,000 for 1988 and 1987, respectively, of long-term debt which is recorded in other noncurrent liabilities.

⁽²⁾ Long-term debt is included in other noncurrent liabilities in 1986, 1985 and 1984.

(in thousands except for per-share amounts)

Selected Quarterly Data (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
1988					
Sales of products	\$ 21,756	\$ 26,228	\$ 28,101	\$ 26,218	\$102,303
Gross profit	\$ 4,607	\$ 7,840	\$ 8,022	\$ 9,357	\$ 29,826
Income before cumulative effect of change in accounting principle	\$ 6,420	\$ 3,019	\$ 3,370	\$ 3,793	\$ 16,602
Cumulative effect of change in accounting for income taxes	(1,473)	—	—	—	(1,473)
Net income	\$ 4,947	\$ 3,019	\$ 3,370	\$ 3,793	\$ 15,129
Net income per share:					
Income before cumulative effect of change in accounting principle	\$0.23	\$0.12	\$0.12	\$0.14	\$0.61
Cumulative effect of change in accounting for income taxes	(0.05)	—	—	—	(0.05)
	\$0.18	\$0.12	\$0.12	\$0.14	\$0.56
1987					
Sales of products	\$ 15,199	\$ 18,274	\$ 28,996	\$ 24,677	\$ 87,146
Gross profit	\$ 1,021	\$ 3,856	\$ 13,783	\$ 8,517	\$ 27,177
Net income (loss)	\$ (3,485)	\$ (394)	\$ 9,612	\$ 4,603	\$ 10,336
Net income (loss) per share	\$(0.13)	\$(0.01)	\$0.35	\$0.17	\$0.38

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations 1988 versus 1987

Net income for 1988 was \$15.1 million, or \$.56 per share, compared to net income of \$10.3 million, or \$.38 per share, for 1987.

Sales of products increased by \$15.2 million or 17% from 1987 to 1988, principally as a result of the commencement of gold production at the Yellow Pine Unit in 1988, increased gold production at the Republic Unit, and increased silver and lead production at the Lucky Friday mine which had suspended commercial production from April 11, 1986 to June 1, 1987. This increased production was partially offset by decreases in the average price per ounce of gold and silver from \$446 and \$7.01 in 1987 to \$437 and \$6.53, respectively, in 1988. Additionally, the industrial minerals segment increased both sales tonnage and the average selling price in 1988 compared to 1987.

Cost of sales and other direct production costs and depreciation, depletion and amortization increased by \$11.2 million and \$1.3 million from 1987 to 1988, respectively, principally as a result of the commencement of gold operations at the Yellow Pine Unit and increased production at the Lucky Friday mine. Cost of sales and other direct production costs of the industrial minerals operations increased moderately from 1987 to 1988, also primarily as a result of increased production.

Other operating expenses increased by \$4.6 million or 32% from 1987 to 1988. General and administrative costs increased by \$.4 million from 1987 to 1988, principally due to (1) a special payment made to certain Company employees in 1988 who were subject to the salary rollback during the 1986-1987 period, along with increased labor costs associated with the salary and wage rollback being rescinded effective September 1, 1987; (2) implementation of an early retirement program in 1988; and (3) increased expenditures on gold and silver promotional activities; all of which were partially offset by a \$1.2 million decrease in the amounts charged to expense in 1987 in connection with the stock option plans. Exploration costs increased from \$4.5 million in 1987 to \$7.5 million in 1988, primarily as a result of increased exploration activity in the precious metals segment, the industrial minerals segment and various Canadian exploration projects. Research expenses increased by \$1.4 million from \$1.3 million in 1987 to \$2.7 million in 1988, principally due to increased marketing and metallurgical research activities associated with the Thor Lake Joint Venture and the Apex Project during 1988.

Interest and other income increased by \$1.5 million from 1987 to 1988 primarily as a result of the gain on the sale of property, plant and equipment, principally from the Victoria, Nevada, property and a Coeur d'Alene, Idaho, land sale in 1988. Other expense decreased from \$.4 million in 1987 to \$.1 million in 1988 as a result of decreased costs associated with the corporate relocation from Wallace, Idaho, to Coeur d'Alene, Idaho. During 1987 a loss of \$.9 million on sale of investments in common stock was incurred. There were no sales of investments during 1988. Interest costs and interest capitalized each increased by \$.7 million from 1987 to 1988, primarily as a result of increased borrowings to finance the Company's share of the Greens Creek Joint Venture preproduction costs.

Income taxes reflect a net benefit of \$3.1 million in 1988 compared to a provision of \$2.4 million in 1987. The income tax benefit in 1988 is principally due to the Company reevaluating its prior accruals for potential income tax deficiencies for its federal and state tax returns currently under audit or subject to audit, and reducing its previously stated income tax liability by \$6,075,000. As further described in Notes 1 and 5 of Notes to Consolidated Financial Statements, the Company prospectively adopted Statement of Financial Accounting Standards No. 96, Accounting for Income Taxes, effective January 1, 1988. The effect of this change, which is reported as the cumulative effect of the change in accounting for income taxes, was to decrease net income by \$1.5 million or \$.05 per share.

Results of Operations
1987 versus 1986

Net income for 1987 was \$10.3 million, or \$.38 per share, compared to a net loss of \$21.2 million, or \$.79 per share, for 1986. Included in the 1986 loss was \$8.5 million (net of income tax benefit) of noncash write-downs and accrual of costs related principally to the carrying value of inactive mining properties and other real estate. Sales of products increased by \$26.2 million, or 43%, from 1986 to 1987, principally as a result of the increased gold production at the Republic Unit, increased metal prices and increased sales tonnage of industrial mineral products. The average price per ounce of gold and silver increased from \$368 and \$5.47 in 1986 to \$446 and \$7.01, respectively, in 1987. The overall average selling price of industrial mineral products increased by 2% in 1987 compared to 1986.

Cost of sales and other direct production costs increased by \$1.0 million, or 2%, from 1986 to 1987. Cost of sales and other direct production costs for the metal operations decreased principally as a result of the suspension of commercial production at the Lucky Friday mine from April 11, 1986 to June 1, 1987. Decreased operating costs and other direct production costs at the Lucky Friday mine were partially offset by increased costs at the other precious metals operations, principally due to increased production. Cost of sales and other direct production costs of the industrial minerals operation increased moderately from 1986 to 1987, also primarily as a result of increased production.

At the time of suspension of commercial operations at the Lucky Friday mine, the Company initiated other steps to preserve the Company assets and financial strength during the period of low metal prices. These steps included a salary rollback for salaried employees in the metal business segment and the corporate staff (the rollback was 15% for all officers of the rank of vice president or higher, and 10% for other salaried personnel, and a 10% reduction of the hourly wages at the Escalante Unit). With improved metal prices, the salary and wage rollbacks were rescinded effective September 1, 1987.

Other operating expenses decreased \$10.5 million from 1986 to 1987. The largest item causing the decrease was a nonrecurring 1986 write-down of \$9.6 million relating to various mining properties and real estate. An increase of \$.3 million in general and administrative expense was primarily due to an increase of \$1.2 million in expenses associated with the Company's stock option plan, which was partially offset by a reduction in salary and labor costs as a result of staff reductions, and the elimination of the costs associated with the employment contracts of former Ranchers Exploration and Development Corporation executives. Exploration expense decreased from \$6.4 million in 1986 to \$4.5 million in 1987, primarily due to the termination of exploration activities at the Consolidated Silver Joint Venture and Mosquito Creek projects during 1986. Research expenses increased from \$.4 million in 1986 to \$1.3 million in 1987 due to increased marketing and metallurgical activities associated with the Thor Lake Joint Venture.

Interest and other income increased by \$.4 million from 1986 to 1987 primarily as a result of the gain on disposal of certain property, plant and equipment acquired in the Ranchers merger. Other expense decreased from \$1.0 million in 1986 to \$.4 million in 1987 as a result of decreased costs associated with the corporate relocation from Wallace, Idaho, to Coeur d'Alene, Idaho. The 1987 loss on sale of investments of \$.9 million was due to a loss on sale of common stock investments, principally from the sale of 550,000 shares of Sunshine Mining Company common stock. Interest and commitment fees in 1987 approximated the amount expensed in 1986. However, in 1987 \$.7 million of interest costs relating to the Company's share of the Greens Creek Joint Venture were capitalized. No interest was capitalized in 1986.

The income tax provision increased to \$2.4 million in 1987 from an income tax benefit of \$2.0 million in 1986, due to improved operating results in 1987 and related almost entirely to the accrual of the federal alternative minimum tax. The federal alternative minimum tax applies because the Company's net operating loss carryovers are not available to offset alternative minimum taxable income. The 1986 income tax benefit was primarily due to the reversal of previously established deferred taxes.

The Company adopted the accounting and reporting requirements of Statement of Financial Accounting Standards No. 87, Employer's Accounting for Pensions, for the year ended December 31, 1987, recognizing \$.2 million of pension income in 1987 compared to \$1.1 million of pension cost in 1986.

Financial Condition and Liquidity

At the end of 1988, assets totalled approximately \$188.8 million and shareholders' equity \$142.8 million. Cash and cash equivalents decreased by \$4.0 million to \$.3 million at the end of 1988 from \$4.3 million at the end of 1987. The major sources of cash in 1988 were \$18.8 million from operating activities and \$7.0 million from bank borrowings. The major uses of cash in 1988 were \$23.8 million for properties, plants and equipment (net of dispositions), \$5.1 million for investments and \$1.3 million for dividends.

The increase in investments in 1988 was primarily due to the Company's acquisition of an additional 11% stock ownership interest in Granduc Mines Limited (Granduc) for \$3,392,000. At December 31, 1988, the Company owned approximately 46% of the outstanding shares of common stock of Granduc. Granduc holds a 40% working interest in the Sulphurets Joint Venture, a gold and silver mining venture located in northwestern British Columbia.

The increase in properties, plants and equipment was primarily due to Hecla's 1988 share (28%) of the Greens Creek preproduction development and plant construction costs. Planned capital expenditures for 1989 are expected to be approximately \$29 million, principally for Hecla's acquisition of the Cyprus Minerals Company's kaolin assets, the acquisition of the Apex germanium-gallium-copper mine and processing plant and the incurrence of related preproduction costs, and Hecla's share of the Greens Creek preproduction and plant construction costs. Additionally, Hecla Mining Company of Canada Ltd. (Hecla Canada), a wholly owned subsidiary of the Company, plans to expend approximately \$.6 million to complete the evaluation and feasibility study of the Thor Lake specialty metals property. At that time Hecla Canada may elect to proceed with the project with its joint venture partner, Highwood Resources Ltd. of Vancouver, British Columbia, Canada, and finance the construction of the mine and processing facilities.

The planned capital expenditures are expected to be funded through internally generated funds and, as necessary, the \$75 million bank revolving credit and term loan agreement. At December 31, 1988, the outstanding bank borrowing under this line was \$17 million. Internally generated funds and the bank credit line are considered adequate to fund the Company's current and existing mid-term plans and objectives. The Company is reviewing other methods of financing which might be employed to meet long-term needs. The currently outstanding borrowings will not become due under the revolving credit and term loan agreement until July 15, 1995.

At December 31, 1988, net operating loss carryforwards are available to offset future regular taxable income, and investment tax credit carryforwards are available to offset future income taxes payable. The Tax Reform Act of 1986 significantly impacts the Company. The use of net operating loss carryforwards are not available to offset alternative minimum taxable income, and usage of investment tax credit carryforwards are limited.

A substantial portion of the Company's revenues are derived from the sale of commodities, the prices of which are subject to worldwide supply and demand. The Company cannot significantly affect the market prices for these products. Prices may change dramatically in short periods of time and such prices have a significant effect on revenues and profits of the Company. The Company has experienced increased costs because of inflation, but the costs of production remain relatively unchanged over the short run although they are generally subject to the same inflationary pressures experienced by the entire economy. In addition, inflation has affected, and will continue to affect, the interest rates paid by the Company, the effect of which on the Company's profitability will vary with the amount of the Company's borrowing at any time. However, the market prices for products produced by the Company have a much greater impact than inflation on the Company's revenues and profitability.

The discovery, development and acquisition of mineral properties are in many instances unpredictable events. Future metal prices, the success of exploration programs and other property transactions can have a significant impact on the need for capital. One of the primary reasons for the maintenance of the bank credit line is to have funds readily available to allow the Company flexibility in structuring mineral acquisitions or ventures. The Company believes it has the flexibility to adjust its activities to cope with changing economic conditions.

**Independent
Auditor's Report**

The Board of Directors and Shareholders
Hecla Mining Company

We have audited the accompanying consolidated balance sheets of Hecla Mining Company and consolidated subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hecla Mining Company and consolidated subsidiaries as of December 31, 1988 and 1987, and the results of their operations and cash flows for each of the three years in the period ended December 31, 1988 in conformity with generally accepted accounting principles.

As discussed in Notes 5 and 8 to the consolidated financial statements, the Company changed its method of accounting for income taxes in 1988 and pension costs in 1987 as required by Statements of Financial Accounting Standards issued by the Financial Accounting Standards Board.

COOPERS & LYBRAND

Spokane, Washington
February 2, 1989, except for
Note 11, as to which the date
is February 17, 1989

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

December 31,

Assets		
	1988	1987
Current assets:		
Cash and cash equivalents	\$ 319	\$ 4,315
Accounts and notes receivable	15,083	13,662
Inventories (Note 2)	14,048	12,239
Other current assets	534	1,243
Total current assets	29,984	31,459
Investments (Note 3)	15,915	13,025
Properties, plants and equipment, net (Note 4)	135,707	122,492
Other noncurrent assets	7,246	3,740
Total assets	\$188,852	\$170,716
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 8,113	\$ 8,161
Accrued taxes	1,486	1,620
Deferred income taxes (Note 5)	2,310	—
Total current liabilities	11,909	9,781
Notes payable to banks (Note 6)	17,000	10,000
Deferred income taxes (Note 5)	9,284	11,949
Deferred revenue	2,718	2,932
Other noncurrent liabilities	5,081	4,762
Total liabilities	45,992	39,424
Commitments and contingencies (Notes 4 and 7)		
Shareholders' Equity		
Preferred stock, 25¢ par value, authorized 5,000,000 shares, none issued (Note 9)		
Common stock, 25¢ par value, authorized 50,000,000 shares, issued 1988 - 27,044,812, and 1987 - 27,040,832 (Note 9)	6,761	6,760
Capital surplus	53,326	53,286
Earnings retained in the business	94,071	80,292
Net unrealized loss on marketable equity securities (Note 3)	(10,687)	(8,475)
Less common stock reacquired, at cost; 1988 - 40,999 shares, 1987 - 38,539 shares	(611)	(571)
Total shareholders' equity	142,860	131,292
Total liabilities and shareholders' equity	\$188,852	\$170,716

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars and shares in thousands, except for per-share amounts)

Year Ended December 31,

	1988	1987	1986
Sales of products	\$102,303	\$87,146	\$ 60,935
Cost of sales and other direct production costs	60,966	49,759	48,777
Depreciation, depletion and amortization	11,511	10,210	10,321
	72,477	59,969	59,098
Gross profit	29,826	27,177	1,837
Other operating expenses:			
General and administrative	8,229	7,795	7,477
Exploration	7,504	4,520	6,448
Research	2,732	1,321	440
Depreciation and amortization	435	677	791
Reduction in carrying value of mining properties (Note 4)	—	—	9,642
	18,900	14,313	24,798
Earnings (loss) from operations	10,926	12,864	(22,961)
Other income (expense):			
Interest and other income	3,053	1,570	1,122
Other expense	(52)	(425)	(1,025)
Loss on the sale of investments	—	(883)	—
Interest expense:			
Total interest cost	(1,807)	(1,101)	(392)
Less amount capitalized	1,371	668	—
	2,565	(171)	(295)
Income (loss) before income taxes and cumulative effect of change in accounting principle	13,491	12,693	(23,256)
Income tax provision (benefit) (Note 5)	(3,111)	2,357	(2,024)
Income (loss) before cumulative effect of change in accounting principle	16,602	10,336	(21,232)
Cumulative effect of change in accounting for income taxes (Note 5)	1,473	—	—
Net income (loss)	\$ 15,129	\$10,336	\$(21,232)
Net income (loss) per share:			
Income (loss) before cumulative effect of change in accounting principle	\$0.61	\$0.38	\$(0.79)
Cumulative effect of change in accounting for income taxes	(0.05)	—	—
	\$0.56	\$0.38	\$(0.79)
Dividends per share	\$0.05	\$0.05	\$ 0.05
Weighted average number of common shares outstanding	27,003	26,990	26,970

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

Year Ended December 31,

	1988	1987	1986
Operating activities:			
Net income (loss)	\$ 15,129	\$ 10,336	\$(21,232)
Noncash elements included in net income (loss):			
Depreciation, depletion and amortization	11,946	10,887	11,112
Income tax benefit	(6,456)	—	(2,176)
Gain on disposition of properties, plants and equipment	(2,541)	(794)	(239)
Loss on sale of investments	—	883	—
Reduction in carrying value of mining properties	—	—	9,642
Cumulative effect of change in accounting for income taxes	1,473	—	—
Cash provided by operations	19,551	21,312	(2,893)
Change in accounts and notes receivable	577	(7,388)	6,447
Change in inventories	(1,809)	604	46
Change in other current assets	709	(570)	(175)
Change in accounts payable and accrued expenses	(48)	2,473	(1,728)
Change in accrued taxes	(135)	756	34
Net cash provided by operating activities	18,845	17,187	1,731
Investing activities:			
Purchase of investments	(5,102)	(530)	(600)
Proceeds from sale of investments	—	6,795	—
Additions to properties, plants and equipment	(25,950)	(32,325)	(6,997)
Proceeds from disposition of properties, plants and equipment	2,067	1,975	806
Other, net	387	123	(100)
Net cash applied to investing activities	(28,598)	(23,962)	(6,891)
Financing activities:			
Proceeds from bank borrowings	27,000	31,500	—
Repayment of bank borrowings	(20,000)	(21,500)	—
Reduction in deferred revenue	(214)	(281)	(553)
Change in noncurrent liabilities	320	(285)	654
Common stock issued under stock option plan	41	987	—
Acquisition of treasury stock	(40)	(312)	(1)
Dividends declared and paid	(1,350)	(1,350)	(1,349)
Net cash provided by (applied to) financing activities	5,757	8,759	(1,249)
Change in cash and cash equivalents:			
Net increase (decrease) in cash and cash equivalents	(3,996)	1,984	(6,409)
Cash and cash equivalents at beginning of year	4,315	2,331	8,740
Cash and cash equivalents at end of year	\$ 319	\$ 4,315	\$ 2,331
Supplemental disclosure of cash flow information (Note 4):			
Cash paid during year for:			
Interest (net of amount capitalized)	\$ 607	\$ 308	\$ 276
Income taxes	\$ 3,295	\$ 2,131	\$ 302

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 1988, 1987 and 1986 <i>(dollars and shares in thousands)</i>	Common Stock		Capital Surplus	Earnings Retained in the Business	Treasury Stock	Net Unrealized Loss on Marketable Equity Securities
	Shares	Amount				
Balances, December 31, 1985	26,994	\$6,748	\$52,311	\$ 93,887	\$(258)	\$ (8,848)
Net (loss)				(21,232)		
Cash dividends				(1,349)		
Net change in unrealized loss on marketable equity securities (Note 3)						(3,096)
Acquisition of treasury stock					(1)	
Balances, December 31, 1986	26,994	6,748	52,311	71,306	(259)	(11,944)
Net income				10,336		
Cash dividends				(1,350)		
Net change in unrealized loss on marketable equity securities (Note 3)						3,469
Stock issued under stock option plans (Note 9)	47	12	975			
Acquisition of treasury stock					(312)	
Balances, December 31, 1987	27,041	6,760	53,286	80,292	(571)	(8,475)
Net income				15,129		
Cash dividends				(1,350)		
Net change in unrealized loss on marketable equity securities (Note 3)						(2,212)
Stock issued under stock option plans (Note 9)	4	1	40			
Acquisition of treasury stock					(40)	
Balances, December 31, 1988	27,045	\$6,761	\$53,326	\$ 94,071	\$(611)	\$(10,687)

The accompanying notes are an integral part of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HECLA MINING COMPANY AND WHOLLY OWNED SUBSIDIARIES

Note 1: Summary of Significant Accounting Policies

A. *Company's Business* - Hecla and its wholly owned subsidiaries are engaged in mining and mineral processing. Sales of products are made principally to custom smelters and commodity dealers. Industrial minerals are sold principally to manufacturers and wholesalers. Sales to significant metal customers, as a percentage of total sales of products, were as follows:

	1988	1987	1986
Custom smelter	21.9%	14.1%	10.3%
Custom metal traders:			
Customer A	45.8%	36.8%	13.7%
Customer B	3.9%	—	22.4%
Customer C	27.7%	15.5%	10.6%

B. *Basis of Consolidation* - The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and its proportionate share of the accounts of the joint ventures in which it participates. All significant intercompany transactions and accounts are eliminated.

C. *Inventories* - Inventories are stated at the lower of average cost or estimated net realizable value.

D. *Investments* - The Company follows the equity method of accounting for nonconsolidated subsidiaries and investments in common stock of operating companies 20% to 50% owned. Investments in nonoperating companies that are not intended for resale or are not readily marketable are valued at the lower of cost or net realizable value. The carrying value of marketable equity securities is based on the lower of cost or quoted market value. The cost of investments sold is determined by specific identification.

E. *Properties, Plants and Equipment* - Properties, plants and equipment are stated at cost. Maintenance, repairs and renewals are charged to operations. Betterments of a major nature are capitalized. When assets are retired or sold, the costs and related allowances for depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in operations. Idle facilities, placed on a standby basis, are carried at the lower of net book value or estimated net realizable value.

Management of the Company reviews the net carrying value of all facilities, including idle facilities, on a regular, periodic basis. These reviews consider, among other factors, (1) the net realizable value of each major type of asset, on a property-by-property basis, to reach a judgment concerning possible permanent impairment of value and any need for a write-down in asset value, (2) the ability of the Company to fund all care, maintenance and standby costs, (3) the status and usage of the assets, while in a standby mode, to thereby determine whether some form of amortization is appropriate, and (4) current projections of metal prices that affect the decision to reopen or make a disposition of the assets.

Depreciation is computed using straight-line and declining-balance methods based on the estimated useful lives of the assets, and the unit-of-production method. Depletion is computed using the unit-of-production method.

F. *Mine Exploration and Development* - Exploration costs are charged to income as incurred, as are normal development costs at operating mines. Major mine development expenditures at operating properties and at new mining properties not yet producing are capitalized.

G. *Reclamation of Mining Areas* - Minimum standards for mine reclamation have been established by various governmental agencies which affect certain operations of the Company. A reserve for mine reclamation has been established for restoring certain abandoned and currently disturbed mining areas, based upon estimates of cost to comply with existing reclamation standards.

H. *Income Taxes* - Effective January 1, 1988, the Company prospectively adopted Statement of Financial Accounting Standards No. 96, Accounting for Income Taxes. The statement amends or supersedes most prior authoritative literature on the subject and requires, among other things, a change from the deferred to the liability method of computing deferred income taxes and current recognition of the effect of changes in statutory tax rates on previously provided deferred income taxes. The effect of this change is more fully explained in Note 5 of Notes to Consolidated Financial Statements.

The benefits of investment tax credits are recognized on a flow-through basis in the year they are available to reduce the income tax provision.

I. *Net Income (Loss) Per Share* - Net income (loss) per share is based on the weighted average number of shares of common stock and common stock equivalents (stock options) outstanding during each reporting period unless the common stock equivalents are anti-dilutive. Due to the net loss in 1986, common stock equivalents are anti-dilutive and therefore have been excluded from the computation.

J. *Revenue Recognition* - Sales of metal products sold directly to smelters are recorded when they are received at the smelter, at estimated metal prices. Recorded values are adjusted periodically and upon final settlement. Metal in products tolled (rather than sold to smelters) is sold under contracts for future delivery; such sales are recorded at contractual amounts when products are available to be processed by the smelter or refinery. Sales of industrial minerals are recognized as the minerals are delivered.

K. *Deferred Revenue* - Deferred revenue includes income to be recognized on the sale of certain mineral properties. Revenue is recognized when cash proceeds exceed the Company's net book value of the assets sold and the collectibility of the remaining payments is assured.

L. *Interest Expense* - Interest costs incurred during the construction of qualifying assets are capitalized as part of the asset cost.

M. *Statement of Cash Flows* - Effective January 1, 1988, the Company retroactively adopted Statement of Financial Accounting Standards No. 95, Statement of Cash Flows. The statement requires a statement of cash flows which replaced the statement of changes in financial position. Accordingly, the financial statements for 1988 include a statement of cash flows. The 1987 and 1986 statements of changes in financial position as previously reported have been restated to present the statements of cash flows. The Company considers cash equivalents to consist of short-term, highly liquid investments which are readily convertible into cash.

N. *Reclassifications* - In order to clarify and to better reflect results, certain prior years' consolidated financial statement amounts have been reclassified to conform to the 1988 presentation. These reclassifications had no effect on the net income (loss) or net earnings retained in the business as previously reported.

Note 2: Inventories

Inventories consist of the following (in thousands):	December 31,	
	1988	1987
Concentrates and metals in transit and other products	\$ 7,379	\$ 5,139
Industrial minerals products	2,651	2,920
Materials and supplies	4,018	4,180
	\$14,048	\$12,239

Note 3: Investments

Investments consist of the following components (in thousands):	Carrying		Market
	Value	Cost	
December 31, 1988			
Marketable equity securities	\$ 6,613	\$17,300	\$6,613
Other investments	9,302	9,302	
Total	\$15,915	\$26,602	
December 31, 1987			
Marketable equity securities	\$ 7,155	\$15,630	\$7,155
Other investments	5,870	5,870	
Total	\$13,025	\$21,500	

At December 31, 1988, the portfolio of marketable equity securities includes gross unrealized gains of approximately \$3,000 and gross unrealized losses of approximately \$10,690,000 (of which approximately \$9,625,000 is attributable to the Company's ownership of Sunshine Mining Company common stock). The other investments are principally large blocks of common and preferred stock in several mining companies, and investments in various mining ventures. These securities are generally restricted as to trading or marketability although some of the shares are frequently traded on the over-the-counter market in Spokane, Washington, and certain Canadian exchanges. At December 31, 1988 and 1987, the shares of some of these companies that were traded on these markets were quoted at values approximating or exceeding the Company's cost basis.

In January 1988, the Company acquired an additional 11% ownership interest in Granduc Mines Limited (Granduc) for \$3,392,000. The additional acquisition increased the Company's ownership of Granduc to approximately 51% which was subsequently reduced to approximately 46% as of December 31, 1988, due to the issuance of additional common stock by Granduc. Granduc holds a 40% working interest in the Sulphurets Joint Venture, a gold and silver mining venture located in northwestern British Columbia.

Note 4: Properties, Plants and Equipment

The major components of properties, plants and equipment are (in thousands):

	December 31,	
	1988	1987
Mining properties	\$ 28,296	\$ 28,189
Deferred development costs	54,764	55,113
Plants and equipment	136,882	111,933
Land	5,475	5,872
	225,417	201,107
Less accumulated depreciation, depletion and amortization	89,710	78,615
	\$135,707	\$122,492

Based on its periodic reviews of the status of various mining properties and investments, the Company determined in 1986 that certain adjustments were appropriate to properly reflect the estimated net realizable values. The major portion of the Company's 1986 write-down of \$9,642,000 related to the Company's interest in the Revenue-Virginus mine. This interest was acquired as part of the merger with Ranchers Exploration and Development Corporation. The Revenue-Virginus lease was terminated during 1987. The remainder of the 1986 write-down reflects adjustments for closing out Ranchers Gold and Silver Exploration Program — 1980 (a limited partnership) and the anticipated sales, at less than carrying values, of the Company's interests in the Sherman mine near Leadville, Colorado, and the Tungsten Queen mine in North Carolina. During 1987, both the Sherman and Tungsten Queen mines were sold.

The net book value of the major mining properties of the Company that were on a standby or idle basis at December 31, 1988 and 1987 is approximately \$7,754,000 and \$8,129,000, respectively.

In May 1987, the Company acquired a 28% interest in the Greens Creek Joint Venture for \$19,600,000. During the spring of 1987, development of the mine was commenced. The Company is committed to fund its proportionate share of approximately \$12,000,000 of estimated remaining preproduction costs. Present plans anticipate commencement of commercial production in early 1989.

In June 1988, the Company sold a parcel of land for approximately \$2,200,000. As part of consideration received, the Company accepted a note receivable of approximately \$1,500,000.

Note 5: Income Taxes

As described in Note 1 of Notes to Consolidated Financial Statements, the Company prospectively adopted Statement of Financial Accounting Standards No. 96, Accounting for Income Taxes, effective January 1, 1988. The effect of this change was to decrease net income by \$1,473,000, or \$.05 per share, which is reported as the cumulative effect of the change in accounting for income taxes.

Major components of the Company's income tax provision (benefit) are (in thousands):

	1988	1987	1986
Current:			
Federal	\$3,149	\$2,079	\$ —
State	196	278	152
Revision of prior years' estimated taxes	(6,075)	—	—
Total current	(2,730)	2,357	152
Deferred:			
Federal	(381)	—	—
Benefit of reversal of previously established deferred income taxes	—	—	(2,176)
Income tax provision (benefit)	\$(3,111)	\$2,357	\$(2,024)

During 1988, as a result of certain revenue agents' reports and resolutions of certain disputes which were settled through the Joint Committee on Taxation, the Company reevaluated its prior accruals for income taxes currently under or subject to audit and reduced its previously stated net income tax liability by \$6,075,000. In connection with the resolution of tax disputes described above, the Company recorded approximately \$3,700,000 as a receivable for refundable minimum taxes previously paid, plus accrued interest thereon of approximately \$900,000.

The deferred benefit of \$381,000 in 1988 is primarily the result of temporary differences between financial statement and income tax amounts for depreciation, depletion, deferred development and exploration costs relating to properties, plants and equipment.

The annual tax provision (benefit) is different from the amount which would be provided by applying the statutory federal income tax rate to the Company's pretax income (loss). The reasons for the difference are as follows (in thousands):

	1988	%	1987	%	1986	%
Computed "statutory" provision (benefit)	\$4,587	34%	\$5,077	40%	\$(10,698)	(46)%
Revision of prior years' estimated taxes	(6,075)	(45)				
Effect of nonutilization of net operating losses					8,522	36
Effect of adjustments associated with the alternative minimum tax	(1,094)	(8)	(2,254)	(18)		
Investment tax credits	(841)	(6)	(688)	(5)		
State income taxes, net of federal tax benefit	312	2	222	2	152	1
Income tax provision (benefit)	\$(3,111)	(23)%	\$2,357	19%	\$(2,024)	(9)%

At December 31, 1988, the Company has tax basis net operating loss carryovers available to offset future regular taxable income, and investment tax credit carryovers (which amounts are shown net of a 35% reduction attributable to carryforward periods) available to offset future regular or alternative federal income taxes payable. These carryovers expire as follows (in thousands):

	Net Operating Losses	Investment Tax Credits
1996	\$ 6,246	\$ 5
1997	7,419	1,636
1998		501
1999		622
2000	14,959	220
2001	17,913	115
	\$46,537	\$3,099

All of the Company's net operating loss carryovers are attributed to preference related items, and therefore are not available to offset alternative minimum taxable income. However, they are available to offset future regular taxable income. Due to the availability of these net operating losses for regular corporate income tax purposes, deferred taxes have been provided based on alternative minimum taxable income. At December 31, 1988, the Company has an alternative minimum tax credit of approximately \$3,700,000 available to offset future regular income taxes payable to the extent such regular taxes exceed alternative minimum taxes payable.

For financial statement purposes, the Company has unused regular corporate tax net operating loss carryovers of approximately \$8,000,000, and investment tax credit carryovers (net of a 35% reduction attributable to carryforward periods) of approximately \$1,629,000.

Note 6: Line of Credit

On July 15, 1988, the Company entered into a new unsecured revolving credit and term loan agreement with five banks which enables the Company to borrow up to \$75,000,000 which replaced an existing \$50,000,000 unsecured credit and term loan agreement. The new agreement provides for revolving credit advances of up to \$25,000,000 for a period of up to seven years and revolving credits on the next \$50,000,000 for a period of three years which can then be converted into four-year term loans payable in equal quarterly installments. Commitment fees during the revolving periods are 3/8 of 1 percent on the average daily unused portion of the first \$50,000,000 of available credit and 1/4 of 1 percent of the next \$25,000,000 of available credit. The interest rates on the revolving credits are: on the first \$25,000,000 of revolving credit advances, the agent bank's Reference Rate with options to borrow at the Offshore Rate plus 1/2 percent or a CD Rate plus 5/8 percent; on the second \$25,000,000, at the Offshore Rate plus 3/4 percent or the CD Rate plus 7/8 percent; and, for the third \$25,000,000, at the Offshore Rate plus 1-1/2 percent or the CD Rate plus 1-5/8 percent. No compensating balances are required. The interest rates upon conversion of advances to term loans increase by 1/4 of 1 percent on the second \$25,000,000 and by 1 percent on the third \$25,000,000. The credit agreement contains certain restrictive covenants concerning the maintenance of minimum net worth and certain financial ratios. As of December 31, 1988, outstanding borrowings under the agreement were \$17,000,000, at an interest rate of 10.058%. The currently outstanding borrowings will not become due under the revolving credit and term loan agreement until July 15, 1995.

Note 7: Contingencies

Various legal actions and claims are pending against the Company and certain of its subsidiaries. The Company has been notified by the U.S. Environmental Protection Agency (EPA) that it is a potentially responsible party with respect to an EPA designated priority list site located in the State of Colorado, a second site located in the State of Washington, and a site proposed for listing in the State of Utah. The Company also has been named as a third party defendant in two separate lawsuits originally brought by the State of Colorado to recover natural resource damages and response costs under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) at two Colorado mining sites. The Company is also named as one of a number of defendants in a suit brought under CERCLA by the United States Government to recover response costs at one of the sites subject to the State of Colorado litigation. The Company is also named as a defendant in a lawsuit brought by private party plaintiffs claiming damages resulting from operations conducted by the Company's predecessor in interest, Ranchers Exploration and Development Corporation, at an Arizona mine site. Although the ultimate disposition of these actions is not presently determinable, it is the opinion of Hecla's management that the outcome of the suits and proceedings mentioned, and other miscellaneous litigation and proceedings now pending, will not have a material adverse effect on the operations or the financial condition of Hecla and its consolidated subsidiaries.

Note 8: Employee Benefit Plans

The Company and its wholly owned subsidiaries have pension plans covering substantially all employees. One plan covering eligible salaried and hourly employees provides retirement benefits and is based on the employee's compensation during the highest 36 months of the last 120 months before retirement. Two other pension plans covering eligible hourly employees provide benefits of stated amounts for each year of service. It is the Company's policy to make contributions to these plans sufficient to meet the minimum funding requirements of applicable laws and regulations, plus such additional amounts, if any, as the Company and its actuarial consultants consider appropriate. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. Plan assets for these plans consist principally of equity securities, insurance contracts and corporate and U.S. government obligations.

Effective January 1, 1987, the Company prospectively adopted the provisions of Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions. The effect of the adoption was to reduce 1987 pension cost by approximately \$917,000, and to increase net income and net income per share by \$761,000 and \$0.03, respectively. Net periodic pension cost (credit) for the plans consisted of the following in 1988 and 1987 (*in thousands*):

	1988	1987
Service cost	\$ 575	\$ 579
Interest cost	1,662	1,602
Return on plan assets	(1,838)	(1,950)
Amortization of transition asset	(428)	(440)
Net pension cost (credit)	\$ (29)	\$ (209)

The Company's pension costs were approximately \$1,098,000 for 1986, and were determined under the provisions of previous accounting principles.

The following table sets forth the funded status (*in thousands*) of the plans and amounts recognized in the Company's consolidated balance sheets at December 31, 1988 and 1987:

	1988	1987
Actuarial present value of benefit obligations:		
Vested benefits	\$15,612	\$15,104
Nonvested benefits	1,020	811
Accumulated benefit obligation	16,632	15,915
Effect of projected future salary and wage increases	3,964	3,349
Projected benefit obligations	\$20,596	\$19,264
Plan assets in excess of projected benefit obligation	\$ 5,902	\$ 4,696
Unrecognized net loss (gain)	(1,043)	641
Unrecognized net asset at January 1	(5,670)	(6,199)
Pension liability recognized in consolidated balance sheet	\$ 811	\$ 862

The projected benefit obligation was calculated applying an assumed discount rate of 8.5% and an assumed long-term compensation increase rate of 6.0% for 1988 and 1987. The assumed long-term rate of return on plan assets utilized in 1988 and 1987 was 8.0%.

In November 1986 and August 1988, the Company offered a special early retirement option to participants in the Hecla pension plan with no actuarial reduction in their accrued benefit for early retirement. The special early retirement program is being funded out of general corporate funds until the participant reaches normal retirement age or age 60 with 30 years of service, at which time payments will be made by the pension trust. Approximately \$402,000 and \$221,000 was accrued in December 1986 and September 1988, respectively, as the estimated liability for those eligible employees who elected to participate in the programs.

In addition to providing pension benefits, the Company provides certain life insurance, medicaid and medicare supplemental benefits. Substantially all of the Company's employees may become eligible for the life insurance benefits if they reach normal retirement age while working for the Company. The medicaid and medicare supplemental benefits apply only to those employees who retired prior to October 1, 1982. The cost of these life insurance and health care benefits is recognized as an expense when payments are made and totalled approximately \$172,000, \$256,000 and \$76,000 in 1988, 1987 and 1986, respectively.

The Company has a Deferred Compensation Plan which permits eligible officers and directors to defer a portion of their compensation. The deferred compensation, which together with Company matching amounts and accumulated interest is accrued but unfunded, is distributable in cash after retirement or termination, and at December 31, 1988 and 1987, amounted to approximately \$981,000 and \$1,475,000, respectively. The Company has insured the lives of certain officers, who participate in the deferred compensation program, to assist in the funding of the deferred compensation liability. The Company is the owner and beneficiary of the insurance policies.

During 1986, the Company implemented a salaried employees' Capital Accumulation Plan which is available to all salaried employees after completion of one year of service. Employees may contribute from 2% to 10% of their compensation to the Plan. The Company makes a matching contribution of 25% of an employee's contribution up to, but not exceeding, 5% of the employee's earnings. The Company's contributions for 1988, 1987 and 1986 were approximately \$73,000, \$68,000 and \$20,000, respectively.

**Note 9: Shareholders'
Equity**

Shareholder Rights Plan - In 1986, the Company adopted a Shareholder Rights Plan. Pursuant to this plan, holders of common stock received one preferred share purchase right for each common share held. The rights would become exercisable ten days after an individual or group acquired 20% of the Company's outstanding common shares or commenced or announced an intention to commence a tender or exchange offer that could result in the acquisition of 30% of the common shares. When exercisable, the right would, subject to certain adjustments and alternatives, entitle rightholders, other than the acquiring person or group, to purchase common stock of the Company or the acquiring company having a market value of twice the \$47.50 exercise price of the right. The rights are nonvoting, may be redeemed at any time at a price of 5¢ per right prior to the tenth day after an individual or group acquires 20% of the Company's common stock, and expire in 1996. Additional details are set forth in the Rights Agreement filed with the Securities and Exchange Commission on May 19, 1986.

Stock Option Plans - The Company has two stock option plans which were adopted in 1982 and 1987. The 1982 plan permits options to qualify as "Incentive Stock Options" under the Internal Revenue Code. Under the 1982 plan, options have been granted to certain officers and employees to purchase common stock at a price not less than the fair market value at the date of grant. All of the outstanding incentive stock options were granted in tandem with a corresponding number of stock appreciation rights. These rights entitle the recipient to payment for the increase in the market value of the stock above the option price, at the date of exercise. Half of this payment is made in cash and half in the form of newly issued common stock. The exercise of either rights or options serves to cancel the other. Options under the 1982 plan are immediately exercisable for periods of up to three years. Under the 1982 plan, 109,800 shares are available for grant in the future.

The 1987 plan, a nonstatutory plan, provides that options may be granted to certain officers and employees to purchase common stock at a price of not less than 50% of the fair market value at the date of grant. The 1987 plan also provides that options may be granted with a corresponding number of stock appreciation rights and/or tax offset bonuses to assist the optionee in paying the income tax liability that may exist upon exercise of the options. All of the outstanding stock options under the 1987 plan were granted with an associated tax offset bonus with the exception of one grant for 7,500 shares which was granted in tandem with a corresponding number of stock appreciation rights and tax offset bonuses. Outstanding options under the 1987 plan are immediately exercisable for periods up to ten years. Under the 1987 plan, 392,500 shares are available for grant in the future.

The aggregate amounts charged (credited) to income in connection with the plans were \$(67,000), \$1,177,000 and \$14,000 in 1988, 1987 and 1986, respectively.

Transactions concerning stock options are summarized as follows:

	Incentive Stock Option Plan		Nonstatutory Stock Option Plan		Total Shares
	Shares	Price	Shares	Price	
Outstanding, December 31, 1985	68,900	\$15.62-18.62	—0—		68,900
Year ended December 31, 1986:					
Granted	61,100	10.12-13.75	—0—		61,100
Expired	(9,450)	16.37-18.62	—0—		(9,450)
Outstanding, December 31, 1986	120,550	10.12-16.50	—0—		120,550
Year ended December 31, 1987:					
Granted	41,100	12.75	107,500	\$10.37	148,600
Exercised	(136,728)	10.12-16.50	—0—		(136,728)
Outstanding, December 31, 1987	24,922	10.12-13.75	107,500	10.37	132,422
Year ended December 31, 1988:					
Exercised	—0—		(3,923)	10.37	(3,923)
Outstanding, December 31, 1988	24,922	\$10.12-13.75	103,577	\$10.37	128,499

Note 10: Business Segments

(in thousands):	1988	1987	1986
Net sales to unaffiliated customers:			
Metals	\$ 77,768	\$ 64,774	\$ 40,002
Industrial minerals	24,535	22,372	20,933
	\$102,303	\$ 87,146	\$ 60,935
Gross profit:			
Metals	\$ 25,747	\$ 23,824	\$ (2,007)
Industrial minerals	4,079	3,353	3,844
	\$ 29,826	\$ 27,177	\$ 1,837
Capital expenditures:			
Metals	\$ 23,157	\$ 30,574	\$ 3,328
Industrial minerals	2,599	1,556	602
General corporate assets	194	195	3,067
	\$ 25,950	\$ 32,325	\$ 6,997
Depreciation, depletion and amortization:			
Metals	\$ 8,552	\$ 6,940	\$ 7,239
Industrial minerals	2,959	3,270	3,082
General corporate assets	435	677	791
	\$ 11,946	\$ 10,887	\$ 11,112
Identifiable assets:			
Active metals facilities	\$118,409	\$ 90,723	\$ 20,001
Industrial minerals business	27,868	28,623	28,718
General corporate assets	34,821	43,241	40,601
Idle and standby metals facilities	7,754	8,129	50,961
	\$188,852	\$170,716	\$140,281

Operating costs and identifiable assets of each segment are those that are directly identified with those operations. General corporate assets consist primarily of cash, receivables, investments and corporate properties, plants and equipment.

Note 11: Subsequent Event

On February 17, 1989, the Company completed the purchase of the kaolin operations from Cyprus Minerals Company for approximately \$11,200,000 in cash.

GLOSSARY OF TERMS

Ball Clay - A fine-grained, plastic, white firing clay used principally for bonding in ceramic ware.

Beryllium Hydroxide - Produced from phenacite concentrate through a chemical process. A component of all beryllium products.

Concentrate - A product containing the valuable minerals of an ore from which most of the waste material has been removed by undergoing a specific treatment.

Core - A long cylindrical sample of rock that is recovered by a diamond drill.

Decline - An underground passageway connecting one or more levels in a mine, providing adequate traction for heavy, self-propelled equipment. Such underground openings are often driven in an upward or downward spiral, much the same as a spiral staircase.

Development - Work carried out for the purpose of opening up a mineral deposit and making the actual ore extraction possible.

Diamond Drill - A rotary type of rock drill in which the cutting is done by abrasion rather than percussion. The cutting bit is set with diamonds and is attached to the end of long, hollow rods. The drill cuts a cylindrical core of rock which is recovered for examination.

Doré - Unrefined gold and silver bullion bars consisting of approximately 90% precious metals which will be further refined to almost pure metal.

Drift - A nearly horizontal underground passage that follows along the direction of a vein or rock formation.

Exploration - Work involved in searching for ore, usually by drilling or driving a drift.

Flotation - A milling process by which the valuable minerals in a mass of finely ground ore can be caused to become attached to air bubbles and float in a liquid while the waste material sinks.

Gallium - A rare, bluish-white metallic element that melts at room temperature.

Germanium - A grayish-white, brittle element used as a semiconductor.

Grade - The average assay of a ton of ore.

Headframe - A structure erected over a shaft to carry the sheave wheels over which the hoist cable runs for hoisting the cage and skip.

Heap Leaching - A low-cost technique for extracting precious metals or copper from ore by percolating weak acid or cyanide solutions through heaps of ore placed on impervious pads. Generally used on low-grade gold or copper ores.

Hoist - The machine used for raising and lowering the cage in a shaft.

Jumbo - A drill carriage on which several drills are mounted.

Kaolin - A fine, white clay used as a filler or extender in ceramics and refractories.

Mill - A processing plant that produces a concentrate of the valuable minerals or metals contained in an ore. The concentrate must then be treated in some other type of plant, such as a smelter, to effect recovery of the pure metal.

Mineralized Zone - Any mass of host rock in which minerals of potential commercial value occur.

Muck - Ore or waste material that has been broken by blasting.

Ore - A mixture of valuable and worthless minerals from which at least one of the minerals can be extracted at a profit.

Ore Reserve - An ore body of which the grade and tonnage have been established with reasonable assurance by drilling and other means.

Overburden - The layer of ground that must be removed in order to expose a ball clay or kaolin deposit.

Phenacite - A glassy mineral consisting of a beryllium silicate and occurring in rhombohedral crystals.

Rare Earths - Any of a series of metallic elements which include the atomic numbers 57 through 71, used as petroleum refining catalysts and in a variety of high-tech ceramic and electronic applications.

Recovered Grade - The amount of metal in ore available for sale, after concentrating and refining losses.

Rockburst - Explosive rock failures caused by the pressure exerted on mine openings far below the surface.

Sand Fill - The coarser fraction of concentrator tailings, conveyed underground in pipes as a slurry, to support cavities left by extraction of ore.

Shaft - A vertical or steeply inclined excavation for the purpose of opening and servicing a mine. It is usually equipped with a hoist at the top, which lowers and raises a conveyance for handling men and materials.

Slurry - A watery mixture of insoluble matter.

Stope - The location underground where the actual mining of ore takes place.

Tailings - Material rejected from a mill after the recoverable valuable minerals have been extracted.

Troy Ounce - Unit of weight measurement used for all precious metals. The familiar 16-ounce avoirdupois pound equals 14.583 troy ounces.

Vein - A mineralized zone having a more or less regular development in length, width, and depth which clearly separates it from neighboring rock.

Waste - Barren rock in a mine, or mineralized material that is too low in grade to be mined and milled at a profit.

CORPORATE INFORMATION



Left to Right:

Roger A. Kauffman
VP - Industrial Minerals

William J. Grismer
Senior VP and Secretary

Arthur Brown
Chairman, President and CEO

W. Glen Zinn
VP - Assistant to the Chairman

Ralph R. Noyes
VP - Metal Mining

Directors

Arthur Brown^{1,4}
Chairman of the Board, President and Chief Executive Officer Hecla Mining Company

John E. Clute^{1,5}
Senior Vice President, Human Resources and General Counsel Boise Cascade Corporation

John M. Dahl^{2,3}
Consultant; Retired Vice Chairman and Chief Executive Officer J. R. Simplot Company

Leland O. Erdahl^{3,5}
President Stolar, Inc.; President Albuquerque Uranium Corp.; former President Ranchers Exploration and Development Corporation; Trustee, Freedom Investment Trust; Director Canyon Resources Corporation; Director Coca Mines, Inc.; Director Freeport-McMoRan Copper Company, Inc.

William A. Griffith^{1,4,5}
Former Chairman of the Board and Chief Executive Officer Hecla Mining Company; Director

Granduc Mines Limited; Director The Coeur d'Alenes Company

Paul A. Redmond²
Chairman of the Board and Chief Executive Officer The Washington Water Power Company; Chairman of the Board ITRON, Inc.; Director Security Pacific Bank Washington

Richard J. Stoehr^{2,4}
Mining Industry Consultant; Retired Senior Vice President Homestake Mining Company; Director Galactic Resources Ltd.; Director Continental Gold Corp.

Norman Visnes^{1,3}
Consultant; Retired Vice President - Mining ASARCO Incorporated

W. Burney Warren^{2,4,5}
Retired President The El Paso Company

¹ - Member of Executive Committee
² - Member of Finance Committee
³ - Member of Audit Committee
⁴ - Member of Directors' Nominating Committee
⁵ - Member of Compensation Committee

Officers and Management Staff

Corporate Headquarters
Coeur d'Alene, Idaho

Arthur Brown
Chairman, President and Chief Executive Officer

William J. Grismer
Senior Vice President, Secretary

Roger A. Kauffman
Vice President - Industrial Minerals

Ralph R. Noyes
Vice President - Metal Mining

Robert H. Wallace
Vice President - Treasurer

W. Glen Zinn
Vice President - Assistant to the Chairman

William B. Booth
Manager - Investor and Public Affairs

Joseph T. Heatherly
Controller

Ronald B. Kahler
Manager - Technical Services

Jon T. Langstaff
Personnel Manager

Ned M. Tower
Manager - Marketing

Michael B. White
General Counsel, Assistant Secretary

David F. Wolfe
Assistant Treasurer

Operations

Republic Unit
Republic, Washington
Josef Suveg, Manager

Lucky Friday Unit
Mullan, Idaho
George R. Johnson, Manager

Yellow Pine Unit
Yellow Pine, Idaho

Escalante Unit
Cedar City, Utah
Scott N. Hartman, Manager

Thor Lake Joint Venture
Northwest Territories, Canada
Joseph M. Maher, Project Manager

Mooseland Project
Mooseland, Nova Scotia
Grant W. Bye, Project Manager

Apex Unit
St. George, Utah
Louis H. Knight, Project Manager

Subsidiary Companies

Colorado Aggregate Company of New Mexico
Alamosa, Colorado
Robert W. Oringdolph, President

Kentucky-Tennessee Clay Company
Mayfield, Kentucky
J. Gary Childress, President

Hecla Mining Company of Canada Ltd.
Toronto, Ontario, Canada
William Allan, President

Annual Meeting

The Annual Meeting of Shareholders will be held at Company headquarters in Coeur d'Alene, Idaho, on Friday, May 5, 1989, at 9:00 AM (Pacific Daylight Time).

Corporate Office

6500 Mineral Drive
Box C-8000
Coeur d'Alene, Idaho 83814
Phone 208 769-4100
Telex 326476
Fax 208 769-4107

Investor and Public Affairs

Analysts, investors, shareholders and news media desiring information about the Company should contact William B. Booth at the address and telephone number listed above.

Form 10-K

A copy of Hecla Mining Company's Form 10-K Annual Report, filed with the Securities and Exchange Commission, is available upon request.

Transfer Agent/Registrar

Manufacturers Hanover
Trust Company
Bank Window
Church Street Station
New York, New York 10015

Stock Exchange Listing

Shares of the Corporation are traded on the New York Stock Exchange and the Pacific Stock Exchange. The Hecla Trading Symbol is HL.

This page is a reference page used to track documents internally for the Division of Oil, Gas and Mining

Mine Permit Number MO210054 Mine Name Escalante Silver
Operator Hedra mining co Date 12-31-1988
TO _____ FROM _____

☐ CONFIDENTIAL ☐ BOND CLOSURE ☐ LARGE MAPS ☒ EXPANDABLE
☐ MULTIPUL DOCUMENT TRACKING SHEET ☐ NEW APPROVED NOI
☐ AMENDMENT ☐ OTHER _____

Description

YEAR-Record Number

☐ NOI ☒ Incoming ☐ Outgoing ☐ Internal ☐ Superceded

1988 Annual Report

☐ NOI ☐ Incoming ☐ Outgoing ☐ Internal ☐ Superceded

☐ NOI ☐ Incoming ☐ Outgoing ☐ Internal ☐ Superceded

☐ NOI ☐ Incoming ☐ Outgoing ☐ Internal ☐ Superceded

☐ TEXT/ 8 1/2 X 11 MAP PAGES ☐ 11 X 17 MAPS ☐ LARGE MAP

COMMENTS: _____

CC: _____